

# HOUSE BUDGET COMMITTEE

## Democratic Caucus

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### UPDATED AND EXPANDED

# **The Bush Budget: Big Tax Cuts and Fuzzy Math**

## **An Analysis of President Bush's 2002 Budget**

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Ranking Member**

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*This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and may not necessarily reflect the views of all members.*

***General Notes:***

- ! All years are fiscal years unless otherwise noted.
- ! Unless otherwise noted, funding levels for discretionary programs are stated in budget authority, and funding levels for entitlements and other direct spending programs represent outlays.
- ! Unless otherwise noted, comparisons with the 2001 level of funding for discretionary programs are comparisons with CBO's baseline estimate of what is needed to maintain purchasing power at the 2001 level, and not with the actual 2001 appropriated level.
- ! Throughout the document, the Congressional Budget Office is abbreviated to CBO. The Office of Management and Budget is abbreviated to OMB.
- ! Numbers may not add due to rounding.

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## Overview

President Bush's program, as set forth in his budgetary document of February 28, undermines the future of Social Security and Medicare and risks our nation's economic progress, all for the sake of an inequitable, oversized tax cut.

Indeed, the President would drive the budget to the brink of an on-budget deficit within the next ten years — just at the beginning of the retirement of the baby-boom generation. To fund his over-large, inequitable tax cut, the President would leave the budget with virtually no reserve to address even his own remaining priorities, much less any contingencies such as economic misfortune, estimating errors, natural disasters, or other emergencies. And it would leave no funds to extend the lives of Social Security and Medicare.

With all reserves depleted, the only resource to fund any additional costs would be the Social Security and Medicare trust funds. And those funds are inadequate even to cover the existing Social Security and Medicare benefits. The President's plan thus threatens all of the progress of the 1990s, in moving from total budget deficits to budget surpluses above and beyond the Social Security and Medicare trust fund surpluses.

Tough decisions and sacrifices of Democratic Congress, President Bush's father in 1990, and President Clinton in 1993 reversed the exploding deficits and debt of the 1980s. The economy experienced unprecedented investment and growth, and the budget reached its largest surpluses in history, with even the budget outside of Social Security and Medicare in surplus for the first time ever. Experts from a broad range of economic and political opinion have called this year an historic opportunity to prepare for our coming demographic challenge, the retirement of the baby-boom generation.

Unfortunately, the Bush plan would squander those record surpluses on an over-large tax cut that disproportionately benefits the most affluent. And he does so even before he has determined the cost of the rest of his agenda.

The Bush plan — it is not a true “budget,” but rather a preliminary argument for a tax cut — thus takes us back to the beginning of the Reagan Administration in 1981. Grand, oversized tax schemes are justified with “magic asterisks,” connoting the vague notion that “there must be spending cuts out there somewhere,” even as vast defense spending increases are waiting in the wings.

Some would argue that today, with the budget in surplus, our leaders have less need of prudence than did those grappling with the deficits of the 1970s and the early 1980s. But in 1981, our debt was only about 25 percent of GDP, not the near 35 percent of today; and the retirement of the baby-boom generation was decades away, not the mere seven years that we now have to prepare. Now, one economic downturn and the time needed for the economy to recover could cut our remaining lead time before the baby boom's retirement in half. This is no time for casual risk-taking, or for re-tests of failed economic theories. We should pay down our debt, provide a more affordable and fair tax cut, and strengthen Social Security and Medicare. And we should not commit ourselves today to an ill-defined tax cut of at least \$1.6 trillion.

## The Bush Framework

The keystone of President Bush's budget is a claimed substantial "contingency reserve" (quantified alternatively at \$1.4 trillion (page 7), \$1.0 trillion (page 13), and \$842 billion (page 187)). The reserve is said to be far more than would be needed to finance any unmet needs or protect the surplus from any unfortunate economic events. At face value, this reserve would suggest that any conceivable dispute about individual items in the budget is mere quibbling — that there is redundancy in the numbers such that all of the projected surplus (and debt reduction) is sure to materialize. The President's volume, *A Blueprint for New Beginnings*, presents the framework in its most comprehensive form as follows:

<b>President's Ten-Year Plan</b> (billions of dollars)	
	Total, 2002-2011
Baseline surplus	5,644
Social Security surplus	2,591
Tax Relief	1,620
Additional needs, debt service, and contingencies	
Helping Hand and Medicare modernization	153
Additional spending and other	20
Debt service	417
Remainder: Bush Contingency Reserve	842
Source: <i>A Blueprint for New Beginnings</i> , Table S-1, page 185	

This plan does not meet the standards set by even the Republican Congress, because it denies even the existence of a Medicare surplus, and then taps it for non-Medicare priorities. On February 13, every House Republican voted for a bill to put the Medicare surplus into a lockbox. In the language of that bill, H.R. 2:

It is the purpose of this Act to...prevent the surpluses of the social security and medicare hospital insurance trust funds from being used for any purpose other than providing retirement and health security; and...use such surpluses to pay down the national debt until such time as medicare and social security reform legislation is enacted.

A broad range of analysts and policymakers have sought to preserve the Medicare surplus, for at least two reasons. In an accounting sense, the Medicare surplus is a pre-funding for known future health-care expenses. The Medicare actuaries have already factored those funds into their calculations, under which the trust fund cannot maintain solvency beyond about 2025. Thus, those funds should be set aside, and not spent for other purposes — in the same way that a

corporate employee welfare fund should not be invaded. And in an economic sense, the only way in which society can provide resources to meet the needs of the Medicare program in future years is to strengthen the economy. Saving the Medicare surplus, to this end, validates the accounting entry into the trust fund by adding to national saving and facilitating capital formation. The Bush framework ignores both this purpose, and the overwhelming votes of Republicans and Democrats alike ever since the budget progress resulting from the 1993 law made such surpluses possible. Bush's framework denies even the existence of the Medicare surplus, which is defined in law, and argues that the financial condition of Medicare is worse than was thought — ironically and illogically, so that it can dissipate that supposed nonexistent surplus on tax cuts and spending initiatives.

If the Medicare surplus is factored into the Bush calculation, the framework looks more like this:

<b>President's Ten-Year Plan, With Medicare Reserve</b> (billions of dollars)	
	Total, 2002-2011
Baseline surplus	5,644
Social Security surplus	2,591
Medicare surplus	526
Tax Relief	1,620
Additional needs, debt service, and contingencies	
Helping Hand and Medicare modernization	153
Additional spending and other	20
Debt service	417
Remainder: Contingencies	316
Source: <i>A Blueprint for New Beginnings</i> , Table III-1, page 14, and Table S-1, page 185	

With this addition, the flaws in the President's framework become more clear. To achieve the stated \$842 billion contingency reserve, the plan must spend the Medicare trust fund surplus. And the plan presents yet another ambiguity. The Bush document would have the Federal government holding almost \$1.3 trillion of private assets as of the end of 2011, even though the Administration has proclaimed that it would oppose any plan for ownership of private assets. Any plan for the dissipation of those assets through either tax cuts or spending increases would require the invasion of the Social Security surplus, because even the claimed Bush contingency reserve of \$842 billion, including the Medicare surplus, would already be gone. Or to take another perspective, the Bush plan projects a \$2.6 trillion Social Security surplus. Even though the President asserts he wants to save all of the \$2.6 trillion for Social Security, he includes only \$2.0 trillion of debt reduction — meaning that the remaining \$600 billion of Social Security money

must be dissipated elsewhere. Since the President has made no secret of his support for Social Security private accounts, the remaining \$600 billion would be available for diversion to fund privatization. Thus, even taken at face value, the Bush budget taps the Medicare and Social Security surpluses for purposes other than to fund current Social Security and Medicare benefits. The Bush plan sets the stage to raid the Social Security and Medicare trust funds. Such a raid would be unnecessary if the Bush tax cut were scaled back in size to a more responsible level.

Furthermore, the Bush program is not yet complete; it is really just a rationale for the tax cut. In the spirit of 1981, other major parts of the budget are unstated or demonstrably understated, providing cover for the tax cut plan. The defense proposal is a placeholder, awaiting completion of a military posture review, which may not be finished until after action on the tax cut. The defense review is certain to ask for increased spending, and could swing the budget numbers by hundreds of billions of dollars over the ten-year budget window. To illustrate this point, the budget includes no figure for the President's desired missile defense program; impartial estimates suggest that the cost of a system that would meet the President's objectives could be in excess of \$100 billion. Meeting the President's campaign goal of holding constant or increasing defense spending as a percentage of GNP would increase ten-year costs by more than \$650 billion. The President makes virtually no new funds available for even his much more modest near-term initiatives aimed at quality of life for military personnel; the Department of Defense must find the necessary resources by cutting its own existing programs.

The non-defense part of the budget adds even more to the uncertainty. The President's funding for his "Helping Hand" program for prescription drugs for the elderly and for Medicare reform is woefully inadequate. The Congressional leadership of his own party refuses to consider his prescription drug plan, and experts have said that a responsible program will cost at least twice what he has set aside in his budget. These higher estimates do not include any funds for Medicare reform. And while announcing new initiatives in education and health research in the part of the budget subject to annual appropriations, the budget allows total spending to grow only at slightly less than the rate that the Congressional Budget Office (CBO) identifies as necessary to maintain purchasing power for current programs. Finally, there is inadequate allowance for natural disasters and other emergencies.

Thus, if all of the President's new proposals are to be funded, the current core government activities must be cut back. But the President provides no indication of where those cuts should fall — other than repeating age-old assurances about "management efficiencies" and "waste." The Senate Budget Committee Chairman, a Member of the Senate Appropriations Committee, has pronounced the President's proposed funding for non-defense discretionary programs "not adequate." The Bush budget is thus eerily reminiscent of the 1981 Reagan budget's reliance on "program savings to be identified later" — the notorious "magic asterisk" — to make its numbers add up. (Perhaps the clearest echo comes in a footnote to the volume's table on discretionary spending and savings, which reads, "The final distribution of offsets has yet to be determined.") This formula did not work in 1981, and it will not work now. If defense funding increases by as much as the President's campaign promises would suggest, and if the Republican Congress increases appropriations at a rate more like its spending of the last few years rather than what President Bush now requests, then there will be no source of funding for individual Social Security accounts or Medicare prescription drug coverage other than the Social Security and Medicare surpluses, which are already committed to pay existing benefits.

Taking account of these funding omissions and inadequacies, the Bush framework might be further expanded as indicated below:

<b>President's Ten-Year Plan, with Medicare Reserve and Omitted and Understated Costs</b> (billions of dollars)	
	Total, 2002-2011
Baseline surplus	5,644
Social Security surplus	2,591
Medicare surplus	526
Tax Relief	1,620
Additional needs, debt service, and contingencies	
Helping Hand and Medicare modernization	153
Additional spending and other	20
Debt service	417
Remainder: Bush Contingency Reserve	316
Omitted and Understated Costs:	
Alternative Minimum Tax Correction	300
Minimal Realistic Added Funding for Prescription Drugs	150
Social Security Transition Costs	1,000
Medicare Reform	???
Defense	???
Adequate Non-Defense Discretionary Funding	???
Natural disasters, emergencies	???
Further Debt Service	???
Economic Forecasting Errors	???
Estimating Errors	???
True Contingency Reserve	Negative
Source: <i>A Blueprint for New Beginnings</i> , Table III-1, page 14, and Table S-1, page 185	

The discussion above described understatements of costs for prescription drug coverage, Medicare reform, defense, and non-defense discretionary spending in the Bush plan. Following is an explanation of the additional items in this presentation:



- **Alternative Minimum Tax Correction** — The Joint Committee on Taxation has recently estimated that almost \$300 billion of just the first installment (marginal rate reduction) of the Bush tax plan would be negated by the Alternative Minimum Tax (AMT) liabilities. Taxpayers would not receive the tax savings that they have been promised, and to add insult to injury, they would be forced to compute their taxes twice to determine their ultimate tax bills. In fact, about 15 million additional taxpayers would be forced onto the complex AMT by enactment of the Bush plan. The Administration has argued against adding the cost of any AMT relief to the total cost of its tax plan on the ground that it is not a part of its package. However, the additional AMT burden, both financial and paperwork, is simply unavoidable. There is no question that the American people will complain bitterly about that intolerable burden, and that the Congress will respond. Thus, AMT relief is a necessary consequence of the Bush tax plan, and it would be misleading not to include it.
- **Social Security Transition Costs** — President Bush made Social Security private retirement accounts a major element of his campaign, and Administration witnesses on the budget have said repeatedly that they plan to send implementing legislation to Congress this year. The President proposes a commission to study the issue, but the plan that the commission recommends, in the President's words, "must offer personal savings accounts." Such privatization of Social Security necessarily entails considerable short-term transition costs; experts aligned with both political parties agree that the costs over the first ten years would be at least \$1 trillion. Obviously, these costs would overwhelm even the stated Bush contingency reserve, much less a more realistic estimate of it. The Administration suggests that it might take the transition funds out of the existing Social Security trust fund; however, that would make Social Security's already insufficient funding even worse — with no plan to remedy the new shortfall. Such a raid on the trust fund would put current benefit commitments in jeopardy, and is not acceptable.
- **Further Debt Service** — All of these unstated and understated costs, when met, would reduce the Administration's projected debt reduction, and so would increase the Administration's projected interest costs. Any accurate accounting of projected surpluses and debt reduction must take account of these unavoidable debt-service costs.

A true contingency fund in a budget is money left over after accounting for the best estimates of the costs of all of the specified programs. That fund then can absorb any shocks from uncontrollable external factors, and can accommodate any changes in the underlying programs. The Bush contingency fund is no such thing. It can exist only because the underlying programs are not yet fully specified, and their stated costs are often unrealistically low. In the absence of accurate and specific information in large parts of the budget, there is no true reserve for contingency, and it is surely a mistake to pass a multi-trillion-dollar, multi-year tax cut which consumes all of the available surplus and threatens the Social Security and Medicare surpluses.

Such a false "contingency reserve" leaves the budget wide open to the most serious contingency: whether the projected surpluses will materialize at all. Prudence would argue against spending future projected surpluses before they appear. Productivity growth in the economy has been more rapid in the past eight years than it had been since the 1960s; and even given that, budget improvement has been far greater than the usual models predicted. With all reasonable confidence

in the economy, history suggests at least the possibility that the recent good news could reverse itself.

The Congressional Budget Office writes in its annual report, *The Economic and Budget Outlook*, January 2001, that its average projection error for a coming budget year is about one percent of GDP — or at current income levels, about \$100 billion. CBO's figures suggest that average projection errors five years out are much closer to five percent of GDP — or about \$500 billion at current levels. No realistic view of the Bush framework can suggest any protection, much less adequate protection, against such contingencies. Again, the Bush plan sets us on a course to raid the Social Security and Medicare surpluses at just the time when more senior citizens will be calling upon those programs.

The Administration argues in its budget that results could be even better than projected, if the economy remains strong and tax receipts continue to grow. But just as likely, results could be worse. This is no time for risks. Budget history since the 1980s shows how hard it is to turn budget deficits around; it took almost 20 years to move from the budget mistake of 1981 back to surplus. Now, we do not have another 20 years to deal with the consequences of an experiment; the first of the baby boomers will claim Social Security retirement benefits in just seven years, and will be eligible for Medicare in ten.

The Administration argues that the recent string of highly favorable (albeit unexplained) budget news should make us more willing to take a chance. But that argument makes no sense on two scores. First, if the favorable budget news of the last few years is beyond our powers of explanation, how can we be so certain that it will not reverse itself? And second, if the budget improved so sharply under existing policies, why should we feel such urgency to change them? The stakes are high. Given that most of the Bush tax cut is back-loaded and phased-in, it is far more sensible to wait until the budget surpluses materialize to make such irreversible commitments. There is no need to rush today to enact tax cuts whose major effect will not be felt for several years.

Alternatively, the Bush budget defends its large tax cut on the ground that by 2008 all of the redeemable public debt will have been redeemed, and so further budget surpluses would be limited to paying off small amounts of newly maturing securities. This choice is among the hardest in the budget to explain. To change a successful budget policy now out of fear that future surpluses will prove excessive is imprudent. If the economy or estimating errors should send the budget in an unfavorable direction, this decision could prove to be very harmful. On the other hand, if budget news continues favorable, seven years will be more than enough time to find new ways to dispose of the budget surpluses. For example, many approaches to long-term Social Security and Medicare reform would consume part of the surplus. And for that matter, the amount of debt that can be repaid will be determined by future debt-management policy and other financial decisions, which could easily change in the interim. It is much too soon to declare victory in the battle of the budget, and to turn and go home.

Spending every last dollar of the available budget surplus while ignoring some priorities, and not even measuring others, is like a family breadwinner choosing not to pay a life insurance premium so that he or she can finance a bigger vacation. Even if that profligate breadwinner survives the year, he or she did not make a wise choice; the risk was not worth running. So too, for the

nation, in this moment of unparalleled opportunity, contemplating the demographic challenges ahead. No sober fiduciary in the private sector would behave in this fashion; neither should a responsible steward of the public treasury.

The following analysis provides the details behind this broad budget structure. It shows the costs of a large tax cut in the absence of serious consideration of an overall budget. It demonstrates that the President's policy is flawed, and that the nation would do well to consider the Democrats' more prudent budget framework.

## The Bush Tax Cut

Like the rest of the budget, President Bush's proposed tax cut cannot truly be said to exist yet. The President's budget includes a host of specific tax breaks, and it stipulates that the revenue loss should not exceed \$1.6 trillion over ten years. Unfortunately, the specific tax cuts that he proposes do not fit within the cost limit that the budget sets. As a result, the Administration has resorted to implausible estimates to reconcile the contradiction.

### The True Cost of the Bush Tax Cut

The claim in the President's budget that the proposed tax cut "accounts for one quarter of the projected one-year budget surplus" is mistaken, even if one takes the tax cut's understated cost estimate of \$1.6 trillion at face value. In fact, the direct revenue loss from the tax cut amounts to 29 percent of the unified surplus. If one includes the added spending on interest payments to bondholders that the tax cut will require, the figure rises to 35 percent. As a percent of the non-Social Security, non-Medicare surplus, the tax cut with debt service consumes 66 percent of the available surplus. If one uses more realistic estimates of the cost of the package's provisions, as outlined below, the tax cut and associated debt service consume more than the entire surplus outside of Social Security and Medicare.

<b>Bush Estimate of Revenue Loss from Basic Tax Package</b>	<b>\$1.6 trillion</b>
<i>Plus:</i>	
Cost of Making Provisions Retroactive to 2001	\$0.1 trillion
Cost of Fixing Interactions with the AMT	\$0.3 trillion
Cost of Extending Expiring Tax Credits	\$0.1 trillion
Promised Cuts Not Included in Basic Tax Package (Health Care Coverage, Long-Term Care, Teachers, and Housing)	\$0.1 trillion
Additional Interest Payments on the Public Debt	\$0.4 trillion
<i>Equals:</i>	
<b>Total Cost of Keeping the President's Tax Promises</b>	<b>\$2.6 trillion</b>

The table above gives very conservative estimates of adjustments needed to arrive at a realistic estimate of the cost of the Bush tax cut.

- The tax cut in the President's budget is not retroactive to this year, as he argues it should be in order to "have near-term benefits now that the economy has slowed markedly." (Oddly enough, the budget's economic forecast does not show a recession.) The 2001 tax cut in the Bush budget amounts to only 0.002 percent (two-thousandths of one percent) of gross domestic product (GDP), a trivial stimulus. Thus, the budget does not acknowledge the true cost of making the tax cut retroactive, which would have to be about \$100 billion to have any effect on the economy.
- In addition, the cost estimate of the Bush tax package does not include any recognition that the proposed rate cuts will cause the number of filers subject to the alternative minimum tax (AMT) to soar. The Joint Committee on Taxation (JCT) estimates that the Bush tax cut would boost the number of taxpayers on the AMT to 35.7 million by 2011, up from less than 3 million currently. Because of this, many filers, including many middle-class families with children, would have to pay the AMT and would not get the tax cuts that the President has promised. If the President were to keep his promises to these taxpayers by cutting the AMT, JCT estimates that his tax cut would cost about \$300 billion more over ten years.
- The President's tax cut also essentially ignores the need to renew several popular expiring tax credits, like the work opportunity credit and the welfare-to-work credit. Congress has always renewed these credits in the past and certainly will in the future. The Bush budget provides for only a one-year extension of these provisions, with part of the cost offset by unspecified tax increases. To permanently extend these expiring provisions without raising taxes elsewhere would cost about \$100 billion over ten years.
- The President's budget cannot truly be said to include the resources needed for the additional tax cuts that he promised for health care coverage, long-term care, teachers, and housing. The budget shows the total cost of the President's basic tax package plus these additional items as ostensibly being \$1.6 trillion over ten years, but that is not possible. The basic tax package by itself was estimated last year to cost \$1.6 trillion, and it is not plausible that that cost has declined. Any reasonable accounting of all the President's tax promises would have to add at least \$100 billion to account for the tax cuts not included in his basic package.
- Finally, the fact that the President's budget uses a substantial portion of the projected surplus for tax reduction rather than debt reduction means higher spending for interest payments to bondholders. This added debt service could easily amount to \$400 billion over ten years. Together, all these added costs bring the total tab for the President's tax cut to at least \$2.6 trillion.

There is also reason to believe that the budget's estimates for some of the items in the tax package may be substantially less than the estimates of Congress's official scorekeepers. The President's cost estimates for the three largest items in the tax package are smaller than estimated by JCT last May, even though the projection of the tax base has grown about seven percent since then.

Together, these three items (the new low-rate bracket, the across-the-board rate cuts, and estate tax repeal) account for two-thirds of the tax package's purported cost.

The degree to which the tax cut's cost may be understated is illustrated by JCT scoring of the first part of the tax package to be considered by the Congress, H.R. 3, which incorporates the proposed rate cuts with some retroactivity. JCT estimates that creating a new bracket with a 10 percent rate and cutting the existing rate structure will lose \$953 billion in revenue between 2002 and 2011, compared with the President's estimate of \$811 billion. This startling 18 percent difference raises serious concerns about the degree to which the cost of other elements of the tax package may be understated. For instance, the budget's estimate for estate tax repeal, which is smaller than JCT's estimate last year, may be too low given that higher projections of income probably imply higher projections of wealth as well.

One might also worry about the ability to resist pressure to add new elements to the President's tax package that raise its overall cost. Members of Congress and the business community have already called for a variety of additional tax cuts. For instance, tax cuts passed by the House last year that do not overlap with the provisions of the Bush tax cut cost about \$400 billion over ten years.

In addition, a broad consortium of industries has urged adding various business tax cuts including a capital gains cut, accelerated depreciation, elimination of the corporate AMT, and lower corporate tax rates. They note business tax cuts have accounted for about a fourth of the cost of comprehensive tax cut packages in the past, suggesting that they would like to see approximately \$400 to \$500 billion in business tax cuts. Although they recently have thrown their weight behind the existing Bush tax cut package, they made clear that their efforts to add business cuts to the mix have only been deferred until later.

## **Tax Fairness**

The President continues to under-emphasize the lopsided nature of his tax cut. The President claims that his tax cut is fair because the percentage tax reductions in his plan are largest at the bottom of the income distribution. However, that amounts to saying that a restaurant worker whose income tax liability of \$200 is totally eliminated gets a larger benefit than a lawyer whose \$20,000 tax liability is cut in half.

In fact, the highest income taxpayers would receive the greatest tax benefits from the Bush plan by any reasonable accounting. In fact, the share of the tax cut going to the top one percent of the income distribution exceeds the share going to the bottom 80 percent. Citizens for Tax Justice (CTJ) estimates that the top one percent, with incomes averaging more than \$900,000 per year, will get an average tax cut of \$46,000. CTJ estimates that the top one percent receives a whopping 45 percent of the tax cut's benefits even though they pay only 21 percent of federal taxes. By contrast, the bottom 80 percent gets 28 percent of the tax cut's benefits, with an average cut of \$430.

The administration has argued that the top one percent actually receive only 22 percent of the Bush tax cut. There are two problems with this calculation. First, the estimate is based on 2006, before many of the tax cuts that benefit the very affluent are fully phased-in. Second, the estimate does not include estate tax repeal, even though it accounts for 23 percent of the cost of the Bush tax cut when fully phased-in. Career staff at the Treasury Department have a model for calculating the distributional consequences of estate tax repeal, but the Administration declines to use it.

The Administration recently has defended its exclusion of estate tax repeal from its calculations by arguing that, while we may know the income and wealth of the decedent, it is difficult to assess the economic status of the heirs. They say that, even though taxable estates belong to wealthy decedents, the latter don't get the benefits of estate tax repeal because they're dead.

The Administration's claim that we don't know much about the economic status of heirs is not accurate. Treasury data show, not surprisingly, that the children of decedents with very large estates tend to have very high incomes. A 1998 Treasury study showed that children receiving bequests in 1981 from estates valued between \$2.5 million and \$10.0 million had taxable incomes averaging \$123,452, while those receiving bequests from estates over \$10.0 million had average taxable incomes of \$271,254. In 1981, these income levels were easily within the top five percent and top one percent, respectively. Since then, the price level has doubled, and real incomes have grown as well, especially at the top. We might thus infer that heirs of large estates today have incomes two or even three times as large as they were in 1981.

The President claims that "the typical family of four will be able to keep at least \$1,600 more of their own money when the plan is fully effective." However, more than 85 percent of taxpayers will get tax cuts less than that amount, and many will get nothing. For instance, the Center on Budget and Policy Priorities (CBPP) estimates that one third of families with children would receive no tax cut. CBPP estimates that more than half of all black and Hispanic families receive nothing from the Bush plan, even though three-fourths of these families include someone working.

The President's focus on a "typical family of four" also deflects attention from the fact that many people are not like this archetypal family. It is true that a married couple with two children and annual income of \$50,000 would get a \$1,600 tax cut, though only after 2005 when the plan is fully phased-in. However, a single mother with two children and a \$22,000 annual income would get nothing. A retired widow with no children and an income of \$30,000 would get a mere \$300. By comparison, a couple making \$550,000 with no kids would get a \$19,000 tax break.

The Bush budget seems designed as if the income tax were the only federal tax. In fact, three-quarters of all taxpayers pay more payroll taxes than income taxes, and the Bush budget does nothing to address this burden. This is because the Bush tax package makes no changes to the earned income tax credit (EITC), which was originally designed in part to offset the impact of payroll taxes on low-income workers.

## **Democrats Respond to the First Installment of the Bush Tax Cut**

Democrats on the Ways and Means Committee have fashioned a significant but responsible tax cut that is more progressive than the Bush plan. The Democratic alternative reduces the surplus by \$900 billion over ten years when one accounts for both the direct revenue loss and associated debt service costs. This is consistent with the balanced approach favored by Democrats in which significant tax relief is a priority, but only one priority, along with debt reduction and investments like education, a Medicare prescription drug benefit, and military modernization.

The Democratic alternative tax package consists of four elements. The proposal creates a new 12 percent bottom rate bracket for the first \$20,000 of a couple's taxable income. The EITC is simplified and improved for working families with children. The proposal addresses the marriage penalty by making the standard deduction for couples twice that for singles and through EITC changes. Finally, the estate tax exclusion is raised immediately to \$4 million for a married couple, eventually rising to \$5 million. This repeals the estate tax for more than two-thirds of estates now subject to the tax.

As the House and Senate Budget Committees were holding their first hearings to see if the Bush budget made sense, the Ways and Means Committee rushed to enact the largest part of the Bush package. As mentioned above, H.R. 3 embodies the rate cuts of the Bush plan along with a very modest degree of retroactivity. The 2001 tax cut, whose purpose is to stimulate the economy this year, is only \$5.6 billion, or 0.05 percent (five-hundredths of one percent) of GDP.

In response to H.R. 3, Democrats offered the rate-cut and EITC portions of their overall package (including estate tax relief would have been non-germane). The Democratic alternative to H.R. 3 was defeated, with three Democrats voting against because they believed it inappropriate to proceed on any tax cut before Congress has passed a budget resolution. H.R. 3 was then passed on a straight party-line vote.

A comparison of the defeated Democratic alternative with H.R. 3 highlights the differences between Republican and Democratic tax cut priorities. The Democratic bill, had it passed, would have provided both more tax relief and more immediate tax relief to middle- and low-income families than the Republican bill.



## **Comparison of Tax Benefits**

	<b><u>H.R. 3</u></b>	<b><u>Rangel Substitute</u></b>
Couple with two children, \$40,000 annual income	\$600 per year (effective 2006)	\$755 per year (effective 2003)
Couple with two children, \$30,000 annual income	\$223 per year (effective 2006)	\$1,048 per year (effective 2003)
Single mother with one child, \$40,000 annual income	\$352 per year (effective 2006)	\$539 per year (effective 2003)
Couple with three children, \$30,000 annual income	\$0 per year (effective 2006)	\$826 per year (effective 2003)
Couple with two children, \$100,000 annual income	approx. \$1,000 per year (effective 2006)	\$600 per year (effective 2003)
Couple with two children, \$500,000 annual income	approx. \$15,000 per year (effective 2006)	\$600 per year (effective 2003)

The “typical family of four” that the President cites as illustrative beneficiaries of his tax plan is shown in the top line of the above table. The rate cuts in H.R. 3, presumably the part of the Bush tax cut Republicans believe to be most urgent, would provide these families with \$600 per year, though not until 2006. By comparison, the Democratic alternative rate structure would give these families a bigger tax cut \$755 per year, and they would see the full tax cut three years earlier. This is true, in fact, for the families in each of the table’s top four lines.

The only families who would do better under the Bush plan would be the families in the bottom two lines of the table whose incomes equal \$100,000 or more. Under the Democratic plan, these families would still get a tax cut, but nowhere near as large as they would get from Republicans.

## Appropriated Programs

Appropriated programs, also known as “discretionary” programs, are those controlled by the annual appropriations process. President Bush’s budget provides \$660.7 billion in budget authority for appropriated programs for 2002, which is \$2.8 billion below the level needed, according to CBO, to maintain purchasing power for these programs at their 2001 levels. Looking at non-defense appropriations only, the budget for 2002 is \$5.9 billion below the level needed to maintain purchasing power at the 2001 level.<sup>1</sup>

### The 2002 Appropriations Picture

As Table One indicates, the budget provides \$2.8 billion less for all appropriated programs than the level needed, according to CBO, to maintain purchasing power at the 2001 level. The non-defense portion of appropriated programs, though, is cut \$5.9 billion below the 2001 level because it bears the entire burden of this \$2.8 billion cut in addition to being cut \$3.1 billion to accommodate the increase for defense (see *National Defense* for discussion of the defense budget).

**Table One:**  
**Comparing the Bush Budget for 2002 Appropriated Programs to**  
**CBO’s Estimate of Amounts Needed to Maintain Purchasing Power at 2001 Levels**  
(discretionary budget authority in billions)

	<u>Bush Budget</u>	<u>CBO Estimate<sup>2</sup></u>	<u>Budget Above/Below CBO Estimate</u>
<b>Defense</b>	324.9	321.8	+ 3.1
<b>Non-Defense</b>	<u>335.8</u>	<u>341.7</u>	<u>-5.9</u>
<b>Total Appropriations</b>	660.7	663.5	-2.8

### Winners and Losers in the Bush Budget

However, as Table Two indicates, several agencies are funded above the level needed to maintain

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<sup>1</sup>The budget asserts that \$660.7 billion is equal to the OMB estimate of the level needed to maintain purchasing power at the 2001 levels. However, non-defense is cut using either CBO or OMB estimates of the 2001 level of purchasing power. The following analysis relies on CBO estimates because Congress traditionally uses these estimates rather than OMB’s estimates during the appropriations process.

<sup>2</sup>CBO estimate of the level needed to maintain purchasing power at the 2001 level adjusted to include \$1.7 billion in offsetting receipts for the Federal Housing Administration’s MMI program for comparability to the Bush budget. These receipts were previously considered mandatory, but will now be credited to the discretionary portion of Function 370, Commerce and Housing Credit.

**Discretionary Budget Authority by Major Agency:**  
**President Bush's 2002 Budget vs. CBO Maintaining 2001 Purchasing Power**  
(discretionary budget authority in billions)

<u>Agency</u>	<u>Maintain 2001</u>		<u>President Bush's 2002</u>		<u>Bush Budget Above/</u>	
	<u>Purchasing</u>	<u>Power</u>	<u>Purchasing</u>	<u>Budget</u>	<u>Purchasing Power Level</u>	<u>Percent</u>
Defense	306.4		310.5		4.1	1.4%
Education	42.7		44.5		1.8	4.2%
Health and Human Services	55.3		56.7		1.4	2.6%
International Affairs Programs*	22.4		23.1		0.7	3.4%
Social Security Administration	6.3		6.4		0.1	2.3%
Veterans Affairs	23.4		23.4		0.0	0.1%
Treasury	14.7		14.7		-0.0	-0.1%
National Science Foundation	4.5		4.5		-0.0	-0.6%
National Aeronautics and Space Administration	14.7		14.5		-0.2	-1.1%
Small Business Administration	0.9		0.5		-0.4	-46.4%
Federal Emergency Management Agency	2.5		2.0		-0.5	-20.2%
Interior	10.5		9.8		-0.7	-7.0%
Environmental Protection Agency	8.1		7.3		-0.8	-9.4%
Corps of Engineers	4.7		3.9		-0.8	-16.9%
Labor	12.2		11.3		-0.9	-7.4%
Commerce	5.8		4.8		-1.0	-16.6%
Energy	20.4		19.0		-1.4	-6.8%
Agriculture	19.6		17.9		-1.7	-8.6%
Justice	21.8		19.9		-1.9	-8.8%
Transportation	19.2		16.3		-2.9	-15.0%
Housing and Urban Development**	34.3		30.4		-3.9	-11.3%

\*International Affairs includes all Function 150 programs except P.L. 480 Title II Aid.

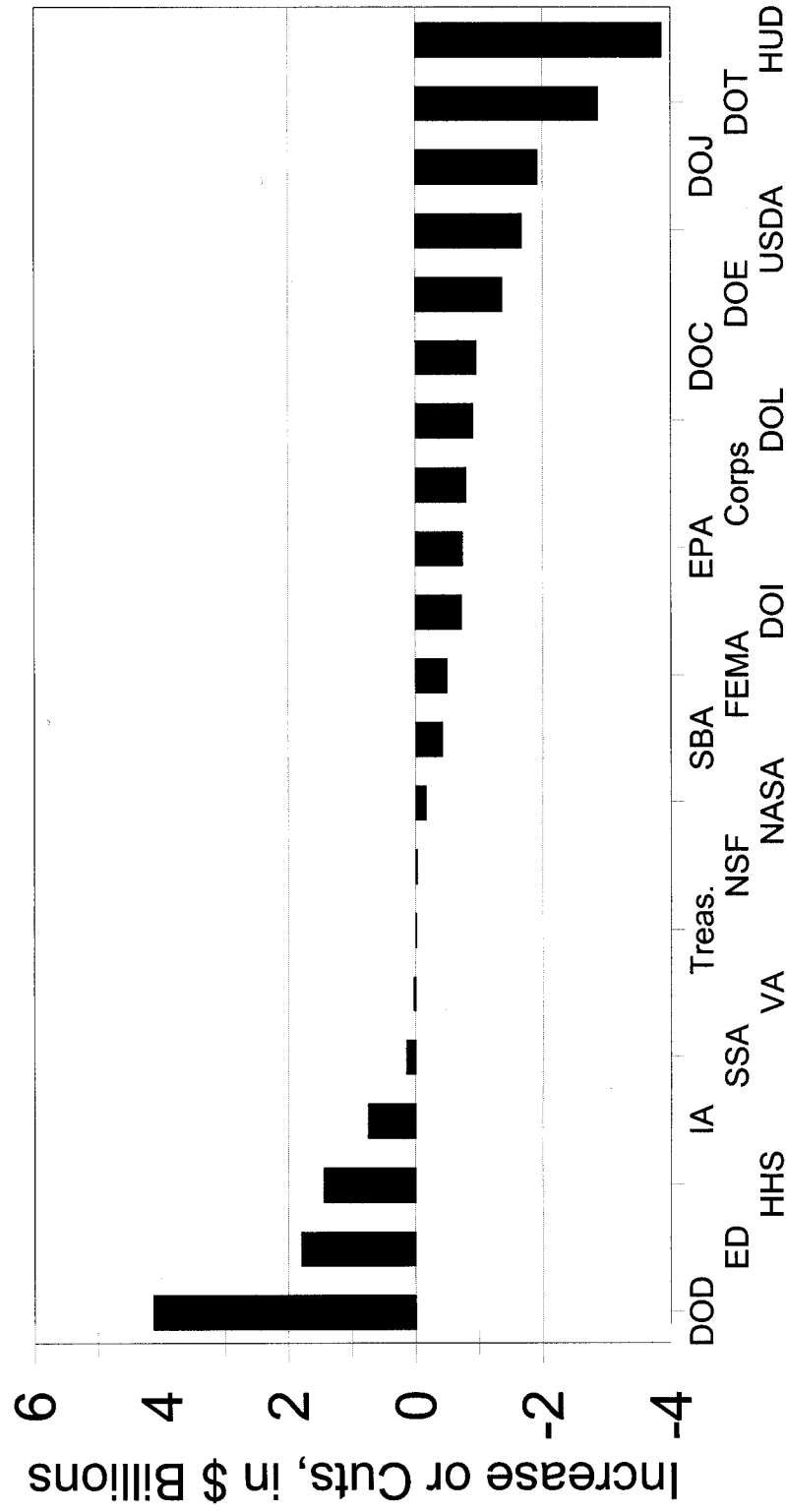
\*\*The 2001 level adjusted for receipts expected to be included in CBO's next baseline for comparability to the Bush budget. CBO has estimated these receipts to be \$1.7 billion; OMB estimated these to be \$2.4 billion in the Bush Baseline.

Note: The Bush budget levels are from Table S-6, page 190, of the Bush Budget, "A Blueprint for New Beginnings." The levels in the column titled "Maintain 2001 Purchasing Power" are CBO estimates except as noted for Housing and Urban Development.

Chart One:

# Winners and Losers

## How Agencies Fare in Bush Budget



IA = International Affairs

Corps = Corps of Engineers

purchasing power at the 2001 level: International Affairs agencies, the Social Security Administration, the Department of Education, and the Department of Health and Human Services. Moreover, the National Science Foundation, the Department of Veterans Affairs, and the Department of Treasury are funded at the level needed to maintain constant purchasing power. The budget thus protects some non-defense agencies from any net cuts to their purchasing power, while making large cuts to others.

Chart One further illustrates the “winners and losers” in the Bush budget. The Department of Defense receives by far the largest increase, more than double the increase the Department of Education receives and nearly three times the increase for the Department of Health and Human Services. International Affairs agencies also receive an increase, and several other departments or agencies are funded to provide essentially last year’s levels of purchasing power.

Most other agencies, however, are cut and many are cut sharply. Ten of the 25 agencies listed in the budget blueprint are cut below a freeze at the 2001 appropriated level. When the budget is compared to the levels needed, according to CBO, to maintain purchasing power at the 2001 level, 17 of the 25 agencies are cut.<sup>3</sup> To the extent possible (given the paucity of information available in the budget blueprint), the consequences of these cuts are discussed elsewhere in the relevant sections of this report.

## Cuts to the “Losers” in the Bush Budget

**Table Three:**  
**Calculating the Impact of the Non-Defense Cut in the Bush Budget**  
(discretionary budget authority in billions)

CBO Estimate, Total Non-Defense	341.7
Less: “Protected” Non-Defense	<u>173.9</u>
<b>“Unprotected” Non-Defense</b>	<b>167.8</b>
 <b>Starting Amount Below CBO Estimate</b>	 <b>5.9</b>
Non-Defense Increases:	
Education	1.8
HHS	1.4
International Affairs	0.7
SSA	0.1
Emergency Reserve	<u>0.9</u>
<b>Subtotal, Increases</b>	<b><u>5.1</u></b>
<b>Total Cuts to Unprotected Non-Defense</b>	<b>11.0</b>
 <b>Percentage Cut</b>	 <b>6.6%</b>

Note: Numbers do not add due to rounding.

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<sup>3</sup>The budget may be offsetting the cuts to Federal Emergency Management Agency and the Small Business Administration by including funding within a new “National Emergency Reserve,” but as is discussed in the subsection *National Emergency Reserve*, the reserve is insufficient to meet likely emergency needs.

As Table Three above indicates, the total of the increases to “protected” non-defense programs is \$5.1 billion.<sup>4</sup> The combined effect of the overall \$5.9 billion reduction discussed above and the \$5.1 billion increase to selected non-defense programs means that the “unprotected” non-defense agencies must be cut \$11.0 billion (6.6 percent) from the level needed to maintain their purchasing power at 2001 levels.

## Budget Does Not Identify All Cuts

Table Four lists all the appropriated items the budget proposes to cut, but as the table indicates, the President’s budget fails to specify many of the cuts it requires. Moreover, almost \$2.2 billion of the cuts that are listed in the President’s budget are made in programs or agencies that the budget funds at or above the levels CBO estimates is needed to maintain purchasing power at the 2001 level. This \$2.2 billion in cuts to the “protected” non-defense agencies is already factored into the net total increases for these agencies, and therefore they do not reduce the \$11.0 billion in cuts that must be made to the “unprotected” non-defense programs. Therefore, the budget only identifies \$5.2 billion in cuts and a further \$5.8 billion must be found:

<b>Unidentified Cuts</b> (discretionary budget authority in billions)	
<b>Cuts Required to Unprotected Programs</b>	<b>11.0</b>
<b>All Cuts Specified in Bush Budget</b>	<b>7.4</b>
<b>Cuts to “Protected” Programs</b>	<b><u>2.2</u></b>
<b>Net Cuts to “Unprotected”</b>	<b><u>5.2</u></b>
<b>Further Cuts Required</b>	<b>5.8</b>

The budget blueprint asserts that \$8.4 billion of the reductions can be made by not repeating funding earmarked by Congress in the 2001 appropriations bills or not repeating “one-time-only” items, yet the budget only tabulates about \$1.7 billion of such items. Even then, the budget does not specifically identify the earmarks in question. While exhorting Congress not to earmark funding in appropriations bills may be a laudable goal, it is not clear whether it is realistic. Moreover, each year Congress appropriates funding for “one-time-only” projects or activities, but these items vary year to year. To assume that the budget can eliminate all “one-time-only” projects or activities is unrealistic.

The plain fact is that the budget assumes cuts that it cannot identify. Congress is not likely to enact cuts this large, and the lack of details in the budget document itself underscores this point. In fact, Table S-4 of the budget includes a footnote that is reminiscent of the infamous “magic asterisk” of the early 1980s: “The final distribution of offsets has yet to be determined.”

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<sup>4</sup>The CBO estimate of the levels needed to maintain purchasing power at the 2001 levels includes \$4.7 billion for emergencies within agencies and programs that are not being increased above baseline. This analysis assumes that this \$4.7 billion is part of the “protected” non-defense base, and the \$0.9 billion difference between this level and the \$5.6 billion fund is treated as an increase. To the extent the fund is used for other purposes, such as agriculture, and the caps on appropriations are not raised for further emergencies, then the cut to non-defense appropriations becomes even larger. See *National Emergency Reserve* subsection for further discussion.

**Table Four:**  
**Specific Cuts To Appropriated Programs In The Bush Budget**  
(discretionary budget authority in billions of dollars)

<b><u>Programs by Agency or Department</u></b>	<b><u>Amount of Cut for 2002</u></b>	<b><u>Page Number in Bush Budget Blueprint</u></b>
<b>Interior</b>		
Eliminate earmarks	NA	p. 122
Eliminate Nat'l Park Service's Save America's Treasures	0.035	p. 121
Streamline U.S. Geological Survey Activities	NA	p. 122
<b>Agriculture</b>		
Eliminate earmarks	0.150	p. 92
Cut research facility construction	0.044	p. 92
Terminate Forestry Incentives Program	0.006	p. 93
No funding for new loans by Rural Telephone Bank	0.003	p. 92
<b>Small Business Administration</b>		
Phase out below-market loans	0.141	p. 163
Eliminate earmarks	0.100	p. 163
<b>Energy</b>		
Eliminate earmarks	NA	p. 108
Restructure Management	NA	p. 108
<b>Health and Human Services *</b>		
Eliminate Community Access Program	0.125	p. 114
Cut Health Professions' Training Grants	NA	p. 114
<b>Department of Justice</b>		
State and local grant assistance	1.500	p. 130
<b>Department of Treasury *</b>		
Community Development Financial Institutes Fund	NA	p. 141
<b>Federal Emergency Management Agency</b>		
Reducing federal disaster assistance	0.166	p. 153
Project Impact disaster preparedness campaign	0.025	p. 153
Phase out Fire Grant program	0.100	p. 153
<b>Education *</b>		
Eliminate one-time projects	0.433	p. 105
Redirect School Construction funding to other items	1.200	p. 105
<b>National Science Foundation *</b>		
Eliminate low priority projects	0.045	p. 160
NSF Education programs	0.110	p. 160
Cut funding for maintenance of research facilities	0.013	p. 160

<b><u>Programs by Agency or Department</u></b>	<b><u>Amount of Cut for 2002</u></b>	<b><u>Page Number in Bush Budget Blueprint</u></b>
<b>National Aeronautics and Space Administration</b>		
Terminate Pluto and Solar Probe Missions	NA	p. 156
Eliminate low priority satellite projects	NA	p. 156
Eliminate low priority aeronautics projects	NA	p. 156
<b>Housing and Urban Development</b>		
Cut Public Housing Capital Fund	0.700	p. 118
Eliminate Anti-Drug Grants for Public Housing	0.310	p. 118
Eliminate rural housing and econ. dev't assistance	0.025	p. 118
<b>Transportation Department</b>		
Eliminate earmarks	1.182	p. 138
Maritime Guarantee Loan Subsidy Program	0.026	p. 138
<b>Army Corps of Engineers</b>		
Cut funding for studying potential new projects	NA	p. 147
<b>Environmental Protection Agency</b>		
Eliminate earmarks	0.499	p. 149
<b>Commerce Department</b>		
Suspend awards for Advanced Technology Program	NA	p. 96
Eliminate NOAA earmarks	NA	p. 96
Limit EDA grants	0.077	p. 96
Eliminate NOAA's Coastal Impact Assistance grants	0.150	p. 96
Terminate Emergency Steel, Oil, Gas Loan Guarantees	NA	p. 96
<b>International Affairs *</b>		
Eliminate OPIC credit subsidy	0.024	p. 127
Cut Ex-Im Bank's credit subsidy 25%	0.216	p. 127
<b>Department of Labor</b>		
Cuts to unspecified Job Training Programs	NA	p. 133
International Labor Programs	NA	p. 133
<b>Other Agencies</b>		
Corporation for National & Community Service	0.035	p. 165
<b>Total, Specified Cuts</b>	<b>7.440</b>	

\* Cuts to "protected programs."

Table 4 includes specific cuts listed in the President's budget. The budget blueprint enumerated the dollar figure of the cut relative to the 2001 appropriated level of funding. The cuts would have been larger had the budget blueprint instead listed the funding needed to maintain purchasing power for these programs at their 2001 level.



## The Long-Term Appropriations Picture

Unfortunately, the picture the budget paints for 2002 non-defense programs is continued virtually unchanged into the future: modest increases for defense and consistent cuts to non-defense. Table Five compares the Bush budget for appropriations to CBO's estimate of the levels needed to maintain 2001 purchasing power over the 2002 - 2006 period.<sup>5</sup> Overall appropriations in the budget are \$3.5 billion in total below what is needed to maintain 2001 purchasing power, but non-defense is cut \$24.5 billion because it must absorb the \$21.0 billion increase for defense.

**Table Five:**  
**A Comparison of Appropriated Programs: The Bush Budget vs.**  
**CBO's Estimate of the Level Needed to Maintain 2001 Purchasing Power**  
 (discretionary budget authority in billions)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Five-Year Total</u>
<u>Bush Budget</u>						
Defense	324.9	333.4	342.8	352.4	362.3	1,715.8
Non-Defense	335.8	345.2	354.6	364.4	374.6	1,774.6
Total Appropriated Programs	660.7	678.6	697.4	716.8	736.9	3,490.4
<u>CBO Estimate</u>						
Defense	321.8	330.3	338.9	347.4	356.3	1,694.8
Non-Defense	341.7	350.8	359.9	368.7	377.9	1,799.1
Total Appropriated Programs	663.5	681.2	698.9	716.2	734.2	3,494.0
<u>Budget Less Estimate</u>						
Defense	3.1	3.1	3.9	5.0	6.0	21.0
Non-Defense	-5.9	-5.6	-5.3	-4.3	-3.3	-24.5
Total Appropriated Programs	-2.8	-2.6	-1.5	0.6	2.7	-3.5

The budget does not provide enough detail to determine whether the budget's increases for 2002 for the Department of Education, the Department of Health and Human Services, and the Social

<sup>5</sup>Again adjusted for FHA's MMI receipts.

Security Administration are sustained over the 2003 - 2006 period. The budget likely does not sustain the 2002 increases for International Affairs (see *International Affairs* for further discussion). Of course, the extent to which these 2002 increases are sustained or increased further has the effect of forcing continued or increased cuts to the “unprotected” non-defense appropriations.

The President’s budget revises the 2002 caps on appropriations and extends them through 2006. See *Appendix* for the level of these caps and a brief discussion.

## **The National Emergency Reserve Fund**

The forecast for non-defense is further clouded by the establishment of a National Emergency Reserve Fund in the budget. The budget includes in the total for non-defense 2002 appropriations \$5.6 billion for a reserve fund to provide emergency funding for natural disasters or other unforeseen contingencies when they occur. If this reserve fund proves insufficient to meet emergency requirements, the budget is silent on whether the caps on appropriations will be adjusted upwards (as they have been in the past), or whether such emergency funding will force further cuts to non-emergency appropriations.

Unfortunately, there are two important reasons to doubt that this fund will be sufficient:

- ! ***Agriculture*** — Over the last three years, Congress has appropriated an average of \$9.0 billion per year for emergency payments for U.S. farmers. As is discussed in the *Agriculture* section, the Bush budget does not provide sufficient funding for mandatory assistance for U.S. farmers, so it is highly likely that the Congress will again have to provide through the appropriations process what would otherwise be mandatory payments. The CBO estimate of the level of appropriations needed for 2002 to keep all discretionary programs at the same purchasing power as 2001 excludes these payments to farmers because CBO considers them to be mandatory payments that normally should not be provided through appropriations. Even if Congress provides less than two-thirds of the average of the last three years, the entire emergency reserve fund is depleted.
- ! ***Emergency Funding is Historically Higher than Reserve Fund*** — Between 1992 and 1998, Congress on average appropriated a total of \$9.2 billion for emergencies; \$6.6 billion for non-defense emergencies and \$2.6 billion for defense emergencies.<sup>6</sup> These years were selected for purposes of calculating this average to exclude the 1991 emergency for Operation Desert Storm and because after 1998 the emergency designation was applied to programs that clearly were not unforeseen contingencies. If the \$6.6 billion for non-defense emergencies alone is converted into 2002 dollars, then the budget’s reserve fund falls \$1.1 billion short of the \$7.7 billion likely to be required.

It remains to be seen whether this emergency reserve will force further cuts to non-defense appropriations.

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<sup>6</sup>Information from CBO Memorandum, Emergency Spending Under the Budget Enforcement Act: An Update, June 8, 1999.

## **Conclusion**

The level of appropriations in the Bush budget is unrealistically low. Even the Republican Chairman of the Senate Budget Committee said that “Some functions of government just can’t take as big a cut as they’re [the Bush Administration] talking about.” Defense funding in the budget is described as not a statement on policy but rather a placeholder until the Department of Defense completes a review of its needs. The budget protects some non-defense programs from cuts, and increases a select few others, but that requires a 6.6 percent cut to the remaining “unprotected” programs for 2002 alone.

The Senate Budget Committee Chairman is right. These cuts are too large, and they will not be enacted. The budget assumes these cuts to make room for the Bush Administration’s first priority: tax cuts. Even defense funding takes a back seat to this priority. However, if Congress approves the tax cuts but does not make these non-defense cuts, Congress risks raiding the Social Security and Medicare surpluses.

## Mandatory Programs

President Bush's budget includes proposals to increase mandatory spending (spending not controlled through the appropriations process) by \$181.7 billion over the next ten years. The bulk of this new funding (\$153 billion) is for the President's Medicare prescription drug benefit and Medicare reform. The second costliest initiative is the refundable portion of the President's expanded tax credits (\$26.4 billion).

The budget partially offsets this new mandatory spending with savings totaling \$38.1 billion over the next ten years. Nearly half of these savings come from addressing the Medicaid "upper payment limit" loophole. Other savings come from new fees, cuts to veterans benefits, and delaying spectrum auctions. The President's mandatory initiatives and offsets are outlined below.

### New Mandatory Spending

- ***Prescription Drug Benefit and Medicare Reform*** — Most of the increase in mandatory spending in the President's budget is for a Medicare prescription drug benefit and undefined changes to the Medicare program. The total increase in spending over the next ten years is \$153 billion above the spending projected under current law. For more details on this initiative, see *Health*.
- ***Tax Credits*** — The budget includes \$26.4 billion in increased mandatory outlays over ten years for the refundable portion of the President's tax-credit proposals.<sup>7</sup> Although no details are provided, it is safe to assume that most of this sum is for the President's new tax credit to help individuals without employer-sponsored health insurance. During the campaign, then-Governor Bush proposed refundable tax credits of \$2,000 for families and \$1,000 for individuals who purchase health insurance on their own. A portion of this \$26.4 billion also likely covers the refundable cost of the President's doubling of the child tax credit. Under current law, the child tax credit is refundable for families with three or more children to the extent that their income and employee payroll taxes exceed their earned income tax credit. By doubling the child tax credit to \$1,000, the President increases the number of eligible families and the amount that families can receive.
- ***Child Welfare Initiatives*** — The budget increases spending for the Promoting Safe and Stable Families program. This program helps to create stable living situations for children with their biological families, if possible, or with adoptive families. Increased spending for this initiative is \$776 million over 2002-2006 and nearly \$1.8 billion over the next ten years, relative to spending under current law. The budget also increases spending for

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<sup>7</sup> Taxpayers can receive the full amount of refundable tax credits even if their tax liabilities are reduced below zero. In effect, the credit can be a negative income tax. The Administration follows a convention by which the reduction of tax liability towards zero is measured as a reduction in receipts, while the amount by which tax liability is reduced below zero is measured as mandatory outlays. Other analysts consider the entire amount of the credit as a reduction in receipts.

education and training vouchers for older foster children preparing to leave the foster-care system. Increased spending for that initiative totals \$233 million over 2002-2006 and \$533 million over 2002-2011.

- ***Charity State Tax Credit*** — This initiative amends the TANF program to permit states to use federal welfare funds to offset any state revenue losses from state income tax credits for charitable contributions. This change accelerates state expenditures of TANF funds, but it produces no net increase in federal spending over the ten-year period (see *Low-Income Programs*).
- ***Loan Forgiveness for Teachers*** — The budget expands the student loan forgiveness limits from \$5,000 to \$17,500 for some math and science teachers. This costs \$11 million for 2002 and \$64 million over the next ten years.

## Mandatory Offsets

- ***Crop Insurance Changes?*** — President Bush's budget lists savings of \$940 million over ten years from a change to the crop insurance program. However, the Secretary of Agriculture asserts that the President has no plans to make the change and that the proposal's inclusion in the budget document was unintended. See *Agriculture* for details.
- ***Drilling in the Arctic National Wildlife Refuge*** — The President's budget assumes the opening of the Arctic National Wildlife Refuge (ANWR) for oil drilling. Although assumed in the budget, the Administration cannot implement this extremely controversial proposal without new legislation from Congress. This budget includes \$1.2 billion from lease bonuses for the federal treasury in 2004 as a result of this policy. The budget also shows \$1.2 billion collected and disbursed to the state of Alaska in 2004.
- ***Medicaid Cuts*** — The budget cuts Medicaid spending by \$606 million in 2002 relative to spending under current law. Over five years (2002-2006), Medicaid spending is \$6.9 billion lower than it would be otherwise, and \$17.4 billion lower over ten years (2002-2011). These savings result from additional constraints on the upper limit payment (UPL). Last year, Congress tightened these payments to prevent states from increasing their federal Medicaid payments without increasing health services. The budget would further tighten the UPL regulations. See *Health* for more details.
- ***Cuts to Veterans Programs*** — The budget extends certain expiring provisions such as IRS income verification for means-tested programs, rounding down the cost-of-living adjustment for disability benefits, limiting pensions for Medicaid recipients in nursing homes, and continuing current housing loan fees. The budget also eliminates the vendee home loan program, which allows the Department of Veterans Affairs (VA) to sell foreclosed properties to non-veterans using direct loans. Eliminating this program may make it more difficult for the VA to sell foreclosed properties, especially properties in disrepair.

**Mandatory Proposals and Offsets in President Bush's Budget Blueprint**  
(millions of dollars, OMB estimates)

<b>Initiatives</b>	<b>2002</b>	<b>2002-2006</b>	<b>2002-2011</b>
Immediate Helping Hand Prescription Drug Plan & Medicare Reform	11,200	64,200	153,000
Expand Teacher Loan Forgiveness	11	32	64
Child Welfare Preventative Services	30	776	1,776
Education & Training for Older Foster Children	9	233	533
Charity State Tax Credit, TANF outlays	0	850	0
Tax credits	81	9,490	26,366
<b>Total, Initiatives</b>	<b>11,331</b>	<b>75,581</b>	<b>181,739</b>
<b>Offsets</b>			
Agriculture: Reduce FCIC reimbursement rate from 24.5% to 20%	-61	-392	-940
Open Arctic National Wildlife Refuge to oil & gas drilling (lease bonuses)	0	-1,200	-1,200
Medicaid savings proposals	-606	-6,876	-17,374
Veterans: round down disability benefits to nearest dollar after COLA	0	-197	-996
Other veterans cuts, fees	19	-68	-1,531
FCC: shift spectrum auctions & promote clearing, analog spectrum lease fee	2,402	-8,498	-8,923
FDIC: state bank exam fees	-162	-892	-2,023
FEMA: changes to flood insurance program	-44	-1,040	-3,468
OPM: Extend higher agency contributions to retirement fund	0	-1,299	-1,966
Other offsets	-10	18	325
<b>Total, offsets</b>	<b>1,538</b>	<b>-20,444</b>	<b>-38,096</b>
<b>Total, mandatory proposals</b>	<b>12,869</b>	<b>55,136</b>	<b>143,641</b>

- ***Schedule Change for Spectrum Auctions*** — The President's budget proposes to "shift spectrum auction deadlines and promote clearing." Although the budget offers no details,

the proposal most likely affects two scheduled auctions of spectrum in the 700 megahertz band. The Federal Communications Commission (FCC) is set to auction channels 60-69 in September 2001 and channels 52-59 by the end of fiscal year 2002.

Judging from the projected changes in receipts shown in the budget, the President plans to push the auctions to sometime during the period 2004 to 2006. This change results in \$3.6 billion in lower receipts in 2002 and 2003 and \$11.1 billion in higher receipts in 2004 to 2006, for a net increase of \$7.5 billion. The change produces a net result of higher receipts, presumably because telecommunications companies will bid more for the spectrum if the auctions are held closer to the date when they can actually utilize it. Under current law, the companies cannot cause interference to incumbent TV broadcasters, who may remain in the band until 2006 or later.

- ***Analog Spectrum Fee*** — The President's budget includes new lease fees on television broadcasters for using the "analog spectrum." Although the Bush budget provides no details, the fee is probably similar to the one proposed by the Clinton Administration last year. Under the Clinton proposal, the FCC would have charged broadcasters for using the electromagnetic spectrum for analog television broadcasts. Individual broadcasters would have been exempted from the fee upon returning their existing analog channels to the FCC (and thus completing their transition from analog to digital broadcasting). Congress did not act on the Clinton proposal last year. President Bush's budget assumes revenues from the new fee of \$198 million in FY 2002 and \$200 million annually during 2003 to 2006. The revenues would decrease annually between 2007 and 2010 as broadcasters relocated from analog to digital spectrum. Receipts over the next ten years would total \$1.4 billion.
- ***State Bank Examination Fees*** — The President's budget includes new "state bank examination fees" by the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve. Although the budget provides no details, it is likely these fees mirror the Clinton Administration's fee proposal last year, which was intended to recover the cost of supervising and regulating state-chartered banks and bank holding companies. Congress did not act on that proposal last year, and it is unlikely to pass this year. President Bush's budget includes \$1.2 billion in offsetting receipts and \$866 million in federal revenue from these fees over the period 2002 to 2011.
- ***Changes to National Flood Insurance Program*** — The President's budget phases out subsidized premiums provided by the National Flood Insurance program for non-primary residences and businesses. Savings from this change total nearly \$2.9 billion over the next ten years. The budget also begins to discontinue subsidized flood insurance premiums for "repetitive loss" properties. "Repetitive loss" properties are those properties in flood plain areas that are flooded and rebuilt regularly with subsidized support. The budget estimates that this proposal will save \$617 million over the next ten years.

## Health

### Medicare

- ***HI Trust Fund Raided*** — President Bush's 2002 budget does not preserve the HI (Part A) Medicare Trust Fund to pay for the benefits to which they are dedicated under current law. In fact, the President's budget denies the existence of a Medicare surplus even though the House voted twice on a nearly unanimous basis to put all of the Medicare surplus into a "lockbox."

By denying that an HI surplus exists, the funds remain part of the overall budget and may be used to pay for the tax cut and programs other than current Medicare benefits. In fact, the budget diverts the entire ten-year (2002-2011) HI surplus of \$526 billion into its "\$1 trillion contingency reserve" fund, which is identified for multiple, unspecified needs. Although current law dedicates the HI Trust Fund monies to pay for Medicare benefits, the budget earmarks the HI Trust Fund for other contingencies.

Finally, the budget does nothing to extend the solvency of the HI Trust Fund to ensure that sufficient funds are available to meet the continuing health care needs of today's seniors or the needs of future retirees in the baby-boom generation.

- ***Inadequate Prescription Drug Benefit for Medicare*** — The budget includes a temporary prescription drug benefit funded outside of the Medicare program. The "immediate helping hand" initiative gives states a limited block grant, \$11 billion in 2002, to provide financial assistance to low-income seniors. This token drug plan provides assistance to fewer than half of today's seniors. About 25 million seniors are denied coverage under the plan. Most of them do not have access to affordable and reliable prescription drug coverage.
- ! ***New Medicare Spending Is Limited*** — In 2002-2004, the budget includes only those increases in Medicare spending that occur under current law. (The funding for the token drug plan is not included in the Medicare spending total.) In later years (2005-2011), the budget increases Medicare spending by \$108 billion relative to current law to fund undefined changes in the structure of Medicare as well as the drug benefit. Last year's House Republican plan was solely for prescription drugs. It carried a ten-year price tag of \$159 billion. That plan was also deemed by many health care analysts and the insurance industry as unworkable and unlikely to provide adequate protection against prescription drug costs for most Medicare beneficiaries.

### Medicaid

- ! ***Medicaid Cuts*** — The budget cuts Medicaid spending by \$606 million in 2002 relative to current law. Over five years (2002-2006), Medicaid spending is \$6.9 billion lower than



it would be otherwise, and \$17.4 billion lower over ten years (2002-2011). The budget includes additional constraints on the upper limit payment (UPL). Last year, Congress tightened these payments to prevent states from increasing their federal Medicaid payments without increasing health services. The budget would further tighten the UPL regulations.

- ! ***Revamping Medicaid and S-CHIP*** — Although no details are provided, the budget alludes to replacing Medicaid and S-CHIP with private health insurance through health care tax credits and other unspecified proposals. The guarantee of core benefits provided under Medicaid and S-CHIP are not discussed.

## Other Health

- ! ***National Institutes of Health (NIH)*** — For 2002, the budget increases NIH funding by \$2.8 billion over the 2001 enacted level. This increase is the fourth installment in a five-year commitment to doubling the NIH budget relative to the 1998 level. Although it is a substantial increase for NIH, it falls short of the \$3 billion increase necessary to meet the goal of double funding in five years.
- ! ***Cuts in Other Health Programs*** — Once the NIH increase is excluded from the budget, the remaining funds in the budget are insufficient to maintain other appropriated health programs at the 2001 level according to CBO. Given the magnitude of the NIH increase and the budget's overall 2002 funding level of \$41 billion, appropriated programs other than NIH must be cut by at least 5.4 percent. Since the budget increases a few other programs, such as community health centers, the depth of the cuts for the remaining programs may be greater than 5.4 percent. These cuts may apply to health programs such as Ryan White AIDS grants, maternal and child health, Centers for Disease Control, and the Food and Drug Administration.
- ! ***Cuts in Health Professions Grants*** — For 2002, the budget cuts and redirects health professions training grants. The details of the cut are not outlined in the budget blueprint. However, it states that funds are redirected to nursing and improving diversity in the health professions.
- ! ***Eliminate the Community Access Program*** — The budget eliminates \$125 million for the community access program (CAP). CAP provides grants to community providers such as hospitals and community health centers that serve uninsured or under-insured persons. The grants allow these providers to develop and coordinate their care network so that people gain access to necessary health care services.

## National Defense

President Bush's budget for 2002 provides \$324.9 billion in appropriations for national security activities, including \$310.5 billion for the Department of Defense (DOD). While the budget does not specify funding levels for nuclear weapons-related activities of the Department of Energy (DOE) or miscellaneous defense activities in various other agencies such as the Coast Guard or the Federal Bureau of Investigation, it is likely that the budget includes approximately \$13.4 billion and \$1.0 billion, respectively, for these activities.<sup>8</sup>

### Department of Defense Funding for 2002

The President's budget for DOD appears to be \$4.1 billion above the level needed, according to CBO, to maintain purchasing power at the 2001 level, and \$100 million above the level recommended by the Clinton Administration for 2002. However, as the table below indicates, \$3.9 billion of this amount is required to provide health care benefits to Medicare-eligible military retirees for 2002 in accordance with last year's National Defense Authorization Act.

#### **Comparing the 2002 Budget with the 2001 Budget and the Clinton Budget** (discretionary budget authority in billions of dollars)

<b>2002 President Budget</b>	<b>\$310.5</b>
<b><i>Less: Military Retiree Health Care</i></b>	<b><i>- \$3.9</i></b>
<b>Adjusted President Budget</b>	<b>\$306.6</b>
<b>Maintaining 2001 Purchasing Power*</b>	<b><u>\$306.4</u></b>
<b>Bush Increase Above 2001, Adjusted for Inflation</b>	<b>+ \$0.2</b>
<b>2002 Clinton Budget**</b>	<b>\$310.4</b>
<b><i>Less: Military Retiree Health Care</i></b>	<b><i>- \$3.9</i></b>
<b>Adjusted Clinton Budget</b>	<b><u>\$306.5</u></b>
<b>Bush Increase Above Clinton</b>	<b>+ \$0.1</b>

*\*The 2001 appropriations bill for defense did not contain funding to expand military retiree health benefits.*

*\*\*Source: Annual Report to the President and Congress, p. 244, January 2001, and the Department of Defense.*

Since there was no legal requirement to provide health care to Medicare-eligible military retirees

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<sup>8</sup>Funding for miscellaneous defense activities totaled \$1.3 billion for 2001. If one assumes that funding for these activities is cut to \$1.0 billion, about the pre-2001 average, that leaves \$13.4 billion for DOE's national security activities.

in 2001, an “apples-to-apples” comparison of funding between 2001 and 2002 should exclude this \$3.9 billion. After making this adjustment, the President’s budget provides only \$200 million more than the level needed to maintain purchasing power at the 2001 level. As the table also indicates, the President’s DOD budget is also only \$100 million more than the budget former President Clinton recommended for 2002.

## **Military Personnel Increase Not as Large as Advertised**

President Bush announced the following package of “increases” for military personnel on February 12 at Fort Stewart in Georgia:

Across-the-Board Pay Raise	\$0.4 billion
Unspecified Compensation	\$1.0 billion
Health Care	\$3.9 billion
Housing	<u>\$0.4 billion</u>
Total	\$5.7 billion

The President’s budget adds \$400 million to provide an across-the-board pay raise of 4.6 percent as opposed to the 3.7 percent planned in the Clinton budget. This increase not only affects the 2002 budget, but all future budgets as well since it increases the base to which future pay raises are applied. In addition, the budget provides \$1.0 billion for military personnel to be distributed at the discretion of the Secretary of Defense “to address specific recruiting and retention needs.” Although the budget is not entirely clear, it indicates that this funding is likely to be used for military bonuses. If so, the \$1.0 billion will be a one-time-only increase for military personnel rather than increasing pay into the future, as would an across-the-board pay raise. (See *Promises Made, Promises Broken* below for further discussion of this issue.)

Both the pay raise and the \$1.0 billion in unspecified additional funding are Bush Administration initiatives that were not in the Clinton budget. Since the President’s budget is only \$100 million more than the Clinton budget, the increase for military personnel will have to be offset by \$1.3 billion of cuts to other DOD accounts.<sup>9</sup> The budget provides no information on what accounts will be cut. However, the President has indicated that after completion of a “military posture” review, he may well request additional funding for defense later this year. If so, the additional funding may eliminate the need for these offsetting cuts.

The budget also provides an “additional \$400 million” to improve the quality of housing for military personnel and their families. The budget states that “[p]rograms including allowances for out-of-pocket housing costs, new construction, renovation of existing housing, and

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<sup>9</sup>This \$1.0 billion increase is also an increase relative to the amount that CBO estimates is necessary to maintain purchasing power at the 2001 level (the baseline estimate). However, the CBO estimate itself is more than is needed to comply with current law because the CBO baseline assumes a pay increase effective at the start of a fiscal year (October 1), whereas Congress traditionally mandates that raises go into effect at the start of the calendar year (January 1).

privatization will all be considered.” The Clinton budget included an increase of approximately \$340 million consistent with the plan to gradually eliminate all “out-of-pocket” costs for military personnel living off-base by 2005 through increases to the basic allowance for housing (BAH). To the extent that the \$400 million the President announced is for BAH, then about 85 percent of the increase was already built into the Clinton budget. Alternatively, if this \$400 million is not primarily for BAH, then it is likely a true increase relative to both the Clinton budget and the level needed to maintain purchasing power at the 2001 level. However, this alternative explanation raises the question of whether the Administration will also seek to eliminate all “out-of-pocket” costs for military personnel living off-base by 2005.

## **Research and Development**

The budget states that it includes “a \$2.6 billion initiative (\$20 billion over five years) to fund R&D of new technologies.” According to CBO, \$41.8 billion is required to maintain R&D at the level needed to maintain purchasing power at the 2001 level. A true increase would be any amount over this level. If the \$2.6 billion refers to an increase over the appropriated 2001 level, then \$1.0 billion of the so-called \$2.6 billion increase is required just to maintain purchasing power at the 2001 level.

Details are not available on the specific amount for R&D in the President’s budget. Thus, it is difficult to determine whether some or all of this stated increase will require offsetting cuts to other DOD accounts since total DOD funding is only being increased by \$100 million relative to the Clinton budget and \$200 million compared to the level needed to maintain purchasing power for DOD at the 2001 level.

! ***Possible Uses of the Five-Year \$20 Billion R&D Initiative*** — The \$20 billion initiative would fund many activities, but \$4 billion is reserved for “especially promising programs that propel America’s Armed Forces generations ahead in military technology.” The budget does not commit specific amounts to any other programs, but indicates that this funding may also be used for: improvements to DOD’s laboratories and test ranges; making weapons and intelligence systems less costly; counterterrorism and counterproliferation activities; and missile defense research.

! ***National Missile Defense*** — The R&D account contains most of the funding for national missile defense (NMD). The budget provides no details on the Administration’s plans for national missile defense. However, the budget does state that “it commits America to developing, designing, and building a national missile defense as fast as possible. Starting now.” In addition, the budget states that it must build missile defenses “designed to protect our deployed forces abroad, all 50 states, and our friends and allies overseas.” Since the budget does not specify whether these systems will be ground-based, sea-based, space-based, or a combination thereof, it is difficult to estimate the cost of this proposal. However, a system that combines all three approaches could easily cost more than \$100 billion over the next ten years. Given that the budget only earmarks a portion of the \$20 billion R&D initiative “to continue research, development, and testing of a missile defense

program,” it is a virtual certainty that the defense budget as proposed has insufficient funds to meet the budget’s stated and ambitious ballistic missile defense goals.

## Long-Term Defense Budget Unknown

While the budget provides a specific level for defense for 2002, it states that future requests are contingent upon completion of a “review of the U.S. military posture.” The budget assumes for display purposes only that defense will be maintained in future years at about the level needed to maintain purchasing power at the 2002 level. Any increases above this level will require tapping into the President’s “Contingency Reserve” (see *Overview* for further discussion of the reserve).

As the table indicates, the budget levels for all defense funding (Function 050) are more than the level CBO estimates is necessary to maintain 2001 purchasing power each and every year (the “CBO Baseline” row in the table). While the 2002 increase is overstated due to inclusion of funding for health benefits for Medicare-eligible military retirees (see *Department of Defense Funding* above for discussion), these costs become entitlements beginning in 2003. Thus, the increases above CBO’s baseline are indicative of true increases after 2002.<sup>10</sup>

<b>National Defense (Function 050) Appropriated Budget Authority in Billions</b>						
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>5 Yr. Total</u>
Bush Budget	324.9	333.4	342.8	352.4	362.3	1,715.8
CBO Baseline	321.8	330.3	338.9	347.4	356.3	1,694.8
Above Baseline	+ 3.1	+ 3.1	+ 3.9	+ 5.0	+ 6.0	+ 21.0

Note: Numbers do not add due to rounding.

The defense levels in the budget provide increases for defense that come at the expense of non-defense programs (see *Appropriated Programs* for discussion). However, it is highly likely that the budget’s defense levels will be increased significantly after the Administration completes its military posture review. As discussed previously, the budget’s stated goals for ballistic missile defense are not likely to be met by this budget. In addition, unless the nation’s basic military strategy of being able to wage two theater conflicts nearly simultaneously is changed to a less demanding standard, CBO and many respected defense analysts believe a substantial increase to defense funding levels is necessary. The uncertainty of the Administration’s true defense levels raises serious questions about whether the Bush tax cut is affordable, whether further increases

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<sup>10</sup>After 2002, the shift of all medical costs associated with Medicare-eligible military retirees to mandatory accounts reduces the amount of appropriated funding DOD requires, but this reduction is more than offset by the increase necessary to make accrual payments to fund the long-term liability of the expanded medical benefits for the current force. CBO did not make an adjustment for either in its baseline, but even if one were to adjust for these discrepancies, the Bush “placeholder” defense budget is still above baseline.

for defense will again come at the expense of non-defense programs, and whether the budget's contingent reserve is sufficient to meet all of the claims that will be placed upon it (see *Overview* for further discussion).

## Department of Energy

The budget does not include specific information on funding for the nuclear weapons-related activities of the Department of Energy (DOE). However, as previously discussed, given that the total discretionary amount for the defense function is \$324.9 billion, and the Department of Defense level is \$310.5 billion, it is reasonable to assume that the funding for DOE's national security activities is approximately \$13.4 billion. The \$13.4 billion budget level is approximately \$480 million (3.4 percent) below the level needed, according to CBO, to maintain purchasing power for these national security activities at their 2001 levels.<sup>11</sup>

- ! ***Stockpile Stewardship*** — This program maintains the safety and reliability of nuclear weapons in the absence of underground tests. Stockpile stewardship relies on computer modeling, surveillance of weapons, and experiments that do not produce nuclear yields. The budget provides \$5.3 billion for the stockpile stewardship program, which is about \$170 million above the level needed to maintain purchasing power at the 2001 level.
- ! ***Cuts to Other DOE National Security Activities*** — Assuming no other increases to DOE's national security activities, including efforts to better protect nuclear materials and secrets, the rest of DOE's national security activities must be cut approximately \$650 million (7.4 percent) below the level CBO estimates is needed to maintain their purchasing power at 2001 levels.<sup>12</sup> Since the bulk of this remaining funding is for clean-up of the environmental contamination that resulted from more than four decades of nuclear weapons production, this cut will inescapably apply to these environmental efforts. Given the labor-intensive nature of the clean-up effort, the cuts could trigger large layoffs at sites such as Hanford in Washington, Savannah River in South Carolina, and Oak Ridge in Tennessee. Also, the cuts could force DOE to break clean-up pacts it has made with local authorities and the Environmental Protection Agency for its sites, leading to lawsuits against DOE.

## Promises Made, Promises Broken

While many of the details of the President's defense budget are unavailable, it appears he will be breaking at least three campaign promises:

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<sup>11</sup>Emergency funding for the fires at Los Alamos last year were excluded for the purposes of calculating this cut.

<sup>12</sup>The \$650 million cut is the result of the overall cut of \$450 million compounded by the \$170 million increase to stockpile stewardship.

- ! ***Defense as a Percentage of the Gross National Product*** — During the presidential campaign, then-Governor Bush decried the fact that “as a percentage of the Gross National Product, our investment in national security is at the lowest point it has been since Pearl Harbor.” He made this remark in two speeches – the August 21, 2000, speech before the Veterans of Foreign Wars, and the September 23, 1999, speech at The Citadel – and it was also included on his campaign web site.

When President Bush made these speeches, defense spending as a percentage of GNP for both 1999 and 2000 was 3.0 percent. Defense spending as a percent of GNP is expected to drop to 2.9 percent in 2001. To hold defense spending as a percent of GNP at 2.9 percent in 2002, then gradually increase it to one-tenth of one percentage point above the 2000 level (to 3.1 percent) by 2005, and then maintain that level thereafter will require \$652 billion in additional spending above the CBO baseline over the 2002-2011 period.

The interest associated with this extra spending would be \$132 billion, for a total of \$784 billion. To keep this pledge, 93 percent of the President’s stated \$842 billion “Contingent Reserve” would have to be devoted to defense, leaving precious little for additional tax cuts, estimating errors, and other needs the President has promised to address.

- ! ***The \$1 Billion Military Pay Raise*** — Then-Governor Bush made several promises during his campaign to provide \$1 billion to increase the military pay raise Congress provided last year:

The Bush Campaign Web Site, Fall 2000: “In a Bush Administration, military pay will be increased by \$1 billion – or an average of \$750 per active duty service member – *over and above* the pay increase recently passed by Congress...Governor Bush will *also increase* targeted reenlistment bonuses and special pay for critical specialties.” [Emphases added]

Veterans of Foreign Wars Speech, August 21, 2000: “Recently, after long neglect, a pay raise was finally passed. But I don’t think it was enough. In my first budget I will ask Congress *to further the pay raise by \$1 billion a year* to make sure our men and women in uniform are properly paid for their duty to America.” [Emphasis Added]

The promises clearly refer to a \$1.0 billion pay raise, not a one-time bonus package. The campaign pledges also indicate that any bonuses would be in addition to, not in lieu of, the \$1.0 billion pay raise. The distinction is important because a pay raise has the effect of raising pay each and every year because it increases the base upon which all future pay raises apply. In contrast, bonuses are one-time-only payments that do not affect future pay raises.

While the budget adds \$400 million to the Clinton budget to increase the across-the-board pay raise to 4.6 percent, this is the level already mandated by law. The budget should add

an additional \$1.0 billion to the 4.6 percent pay raise mandated by the 2001 National Defense Authorization Act to fully comply with the campaign pledge.

It is conceivable that the \$1.0 billion in unspecified funding for military personnel in the President's budget will be used for this purpose, but by leaving it to the discretion of the Secretary of Defense, there is no firm commitment. In fact, the budget itself seems to indicate it will be for bonuses, and the New York Times reported on February 13, 2001 that it will likely be used for "targeted increases, re-enlistment bonuses or other incentives..." If so, the budget does not meet President Bush's pledge.

! ***Protecting Nuclear Secrets*** — Then-Governor Bush said in his August 21, 2000 speech before the Veterans of Foreign Wars that:

"I will also end the confusion and chaos in handling top-secret information and our nation's other vital secrets. My administration will make our national labs secure again. Our vital information will be sealed again, and our nuclear secrets will be secret again."

As discussed previously, the President's budget cuts DOE's national security funding (other than stockpile stewardship) by 7.4 percent below the level that CBO estimates is needed to maintain purchasing power for these programs at the 2001 level. Critical components of the security initiatives fall outside of the stockpile stewardship budget. The DOE will likely require \$100 million over four years just to improve cyber-security at the three weapons labs (Sandia, Los Alamos, and Lawrence Livermore). Estimates of improving physical security at these and other DOE facilities that possess nuclear secrets and nuclear materials easily run into the hundreds of millions of dollars. It is difficult to see how the President can bolster the safety of nuclear secrets (and materials, which also must not fall into the wrong hands) at the same time he is cutting DOE's national security funding. However, if indeed funding to improve security is being increased, then the cuts to the remaining national security programs of the DOE – such as the naval reactor program, nuclear non-proliferation activities, and clean-up of contaminated DOE sites – will be even larger than 7.4 percent.



## Education

President Bush's budget provides \$44.5 billion in appropriations for the Department of Education (ED), an increase according to CBO of \$1.8 billion (4.2 percent) above the amount needed to maintain purchasing power for education programs at their 2001 level, and an increase of \$2.4 billion (5.7 percent) above a freeze at the 2001 level. For mandatory programs for 2002, the budget expands the Teacher Loan Forgiveness program by \$11 million relative to projected spending under current law.

The President's budget overstates its increase by comparing it not to the 2001 freeze level or to the amount needed to maintain purchasing power at last year's level, but instead to the actual amount of funding appropriated for 2001. That level, however, does not include \$2.1 billion that Congress already provided for 2002 appropriations and already designated for specific ED programs for the 2001 school year. If Congress froze funding for ED at the 2001 level, ED would receive \$42.1 billion, which includes that "advance appropriation" of \$2.1 billion. In essence, the President's budget is including in its increase the \$2.1 billion that Congress has already appropriated for ED for 2002.

### Department of Education Funding for 2002

2001 freeze level*	\$42.1 billion
2001 inflation adjusted	\$42.7 billion
2002 Bush proposal	\$44.5 billion

\* The 2001 freeze level includes the \$39.9 billion in 2001 appropriations plus an additional \$2.1 billion already provided in advance appropriations for 2002.

To put this in perspective, Congress last year increased ED appropriations by 18.2 percent over the 2000 freeze level. Over the last five years, Congress has increased ED appropriations by an average of 13 percent annually. The President's budget provides less than half of the increase Congress has been giving to education in recent years.

### ED Increases

(dollars in billions)

Total increase over freeze	\$2.4
Elem. & Sec. ed	\$1.6
Pell Grants	\$1.0
Cuts	<u>-\$1.6</u>
Available for all else	\$1.4

Of the total \$2.4 billion increase over a freeze at the 2001 level, \$1.6 billion is for elementary and secondary education programs and \$1 billion is for Pell Grants. However, the budget then eliminates the \$1.2 billion Congress approved last year for school renovation and cuts another \$433 million in unspecified programs, leaving a remainder of \$1.4 billion for increases in all other education programs, including special education, campus-based aid for higher education, and Title I.

This \$1.4 billion is not nearly enough to meet the nation's education needs and it comes at a high price: the elimination of federal school construction funding. It also makes no headway in addressing one of President Bush's major campaign promises: the additional \$10 billion needed for 2002 for "full funding" of special education.

- ! **Reading First** — The budget provides about \$900 million for the Reading First program to ensure that children can read when they enter third grade, an increase of about \$600 million from the 2001 appropriated level.
- ! **Teachers** — The budget includes \$2.6 billion for teacher training and recruitment, an increase of \$410 million (18.7 percent) above the 2001 freeze level, through combining the Class Size Reduction and Eisenhower professional development programs.
- ! **Other Elementary and Secondary Increases** — The budget increases funding for charter schools by \$150 million (78.9 percent), for Impact Aid construction assistance by \$62 million (6.2 percent), and for character education by \$16 million (169.8 percent) from the 2001 appropriated level.
- ! **Guts School Renovation Funding** — The budget eliminates future funding for school renovation and retroactively allows states to redirect the \$1.2 billion provided for school renovation for 2001 to pay for either special education or technology needs.
- ! **Special Education** — The budget claims to increase funding for special education but provides no specific dollar figure. It appears that any increase for special education comes from redirecting the \$1.2 billion of 2001 appropriations intended for school renovation and eliminating the school renovation funding entirely for 2002.
- ! **Unspecified Cuts** — The budget cuts \$433 million in funding for “one-time projects” and for unnamed short-term activities “whose purposes have been met.”
- ! **Freezes Funding for After-School and Safety Programs** — The budget combines and freezes funding for the Safe and Drug Free Schools program and the 21<sup>st</sup> Century Community Learning Centers after-school program.
- ! **Pell Grants** — The budget provides \$9.8 billion for Pell Grants, an increase of \$1 billion above the 2001 appropriated level. However, this increase is only \$459 million above the level required to maintain the maximum award at last year’s level of \$3,750, providing an effective increase of only 4.9 percent.
- ! **Minority-Serving Institutions** — The budget provides a \$19 million (6.4 percent) increase for Historically Black Colleges, Universities, and Graduate Institutions and to Hispanic-Serving Institutions, compared to a freeze at the 2001 level.
- ! **Student Loans** — The budget expands the student loan forgiveness limits from \$5,000 to \$17,500 for some math and science teachers. Relative to projected spending under current law, this costs \$11 million for 2002 and \$32 million over the 2002-2006 period.

## Broken Promises

This ED budget does not live up to the promises President Bush has made.

- ! ***Does Not Increase Freshmen Pell Grants to \$5,100*** — President Bush promised to increase Pell Grants just for eligible freshman to \$5,100 (the fully authorized level for 2001). According to CBO, this costs \$11.3 billion for 2002; the budget provides only \$9.8 billion for Pell grants, \$1.5 billion less than needed.
  
- ! ***Does Not Move Towards Full Funding of Special Education*** — President Bush promised to move towards providing 40 percent of the national average per pupil cost of assisting the education of children with disabilities — known as “full funding.” For 2001, states received only 14.9 percent of the national average cost for each disabled child. To maintain even this level would require an additional \$245 million over a freeze at the 2001 level, but the budget is silent on the amount of any increase it provides for special education.

## Low-Income Programs

The President's initiatives for programs serving low-income people largely consist of creating new tax credits for charitable contributions to private organizations, competitive grants for faith-based and community organizations, and increases for select programs serving children and families. These new initiatives contrast with discretionary funding cuts that threaten core services for economically vulnerable people.

### Initiatives

- ***TANF and State Income Tax Credits*** — As part of the Administration's effort to provide tax incentives to increase private donations to charitable organizations, the budget encourages states to create new state income tax credits for charitable contributions. The budget permits states to divert federal Temporary Assistance for Needy Families (TANF) funds to offset any revenue losses from the credits. TANF funds currently provide cash assistance, child care, and other anti-poverty services to families with children. The budget does not provide additional TANF funds to cover spending associated with this initiative.
- ***Grants for Faith-Based Organizations and Fatherhood Initiatives*** — The budget contains a number of new grant programs targeted to faith-based and community organizations, many of them set-asides from existing programs for low-income families. Many of these focus on promoting fatherhood and marriage, in part through job training. These include a \$20 million set-aside from the Community Development Block Grant for organizations to make their facilities accessible to the disabled and \$64 million in the Department of Health and Human Services (HHS) budget for grants to faith-based organizations to help low-income fathers support their families and strengthen marriage. However, the budget contradicts this effort with cuts of greater magnitude in Department of Labor (DOL) job training programs (discussed below).
- ***Initiatives for Children*** — The budget increases the Child Care and Development Block Grant (CCDBG) to \$2.2 billion, \$115 million over the amount necessary to maintain current services. However, the President creates a new \$400 million set-aside within CCDBG for an after-school care certificate program, effectively decreasing funding for currently funded services by \$285 million. The budget also increases funding for the Promoting Safe and Stable Families program by \$200 million. This program helps to create stable living situations for children with their biological families, if possible, or with adoptive families.

### Reductions in Core Services

- ***Housing Assistance*** — The budget provides just \$30.4 billion for the Department of Housing and Urban Development (HUD) for 2002, \$3.9 billion less than the \$34.3 billion CBO estimates is necessary to maintain housing and economic development programs at

the 2001 level.<sup>13 14</sup> The budget promises to renew all expiring Section 8 rental assistance contracts and increases the number of families receiving rental assistance by 34,000 vouchers (half of the average number of new vouchers provided in the last three years). The budget includes several new initiatives, including \$80 million for technology centers in low-income neighborhoods and \$200 million for the Down Payment Assistance Initiative grants promised by President Bush during the campaign, which is provided as a set-aside within the HOME program. The budget states that some additional programs will be maintained or slightly increased from 2001 levels but does not provide a specific 2002 level.

In order to fulfill the nation's commitment to maintain the number of families receiving Section 8 rental assistance and to fund its new initiatives within the reduced HUD budget, the Administration makes dramatic cuts in vital housing programs. Specified funding cuts in public housing, which is home to 1.2 million low-income families, are particularly severe. The budget slashes the Public Housing Capital Fund, which funds critical public housing building repairs, by \$700 million from 2001 levels. This represents a 25 percent cut from the amount necessary to continue repairs at the current pace. While the budget asserts that local housing providers can tap into unspent funds (i.e., funds committed to ongoing or planned work) to pay for repairs, unmet repair needs far exceed the amount of funding in the repair pipeline. A recent HUD study estimated that unmet repair needs in public housing were \$22.5 billion in 1998, and that \$2 billion in new repair costs accrue each year. The President eliminates the \$316 million Drug Elimination grants program, which provides funds for drug prevention and anti-crime activities and security features in public housing. The budget also eliminates the \$26 million Rural Housing and Economic Development program. Although the budget does not specify other HUD cuts, dramatic reductions in non-protected programs would be required to arrive at the total \$3.9 billion cut.

- ! **Job Training** — The budget contains \$11.3 billion in appropriations for DOL for 2002, which is \$906 million (7.4 percent) below the level needed, according to CBO, to maintain purchasing power for labor programs at their 2001 level. Assuming a 7.4 percent across-the-board cut in labor programs, the President's budget provides \$425 million less than needed to maintain job training and employment services at their 2001 levels. This loss of purchasing power translates into real cuts in the numbers of people who can benefit from these programs each year. For example, a 7.4 percent reduction in job training for displaced workers would mean that approximately 65,000 fewer displaced workers will benefit from these services in 2002 than in 2001.

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<sup>13</sup> Discretionary budget authority figures used in the President's Budget reflect a recent agreement between OMB, CBO and the Budget Committees to count receipts from the Mutual Mortgage Insurance (MMI) program of the Federal Housing Administration (FHA) on the discretionary side of the budget for the first time in 2002. Because FHA's MMI receipts currently exceed the program's costs, the amount of total HUD budget authority shown in the President's Budget will appear lower by the amount of these receipts. The Administration estimates \$2.4 billion in FHA's MMI receipts for 2002; CBO estimates these to be just \$1.7 billion. Total HUD budget authority amounts used in this document also reflect the inclusion of FHA's MMI receipts.

<sup>14</sup> Although the budget refers to savings from increased FHA fees and tenant income verification, no amounts are specified. If the budget assumes any other offsets or recaptures, these are not mentioned.

- ! **Head Start** — The budget expresses interest in reforming Head Start but provides no specific budgetary details. The budget contains \$33.6 billion in appropriations for HHS programs outside of NIH, \$800 million less than the amount needed, according to CBO, to maintain purchasing power for these programs at their 2001 level. A proportional reduction in Head Start funding would mean a cut of \$145 million, resulting in 25,000 fewer children and their families receiving Head Start services in 2002.
- ! **Low-income Seniors** — The budget's 7.4 percent reduction in purchasing power for DOL appropriations will, assuming across-the-board reductions in programs, result in more than 6,500 low-income seniors losing their part-time jobs under the Older Americans Community Service Employment program. The budget also cuts non-NIH appropriations for HHS by \$800 million below the amount needed to maintain current purchasing power. A proportional reduction in the Administration on Aging's nutrition programs would eliminate funding for more than 6 million meals for low-income seniors.
- ! **Low-Income Home Energy Assistance** — The energy policy initiatives described in the President's budget do not include the Low-Income Home Energy Assistance Program (LIHEAP), so the President's plans for LIHEAP are unclear. However, like Head Start, LIHEAP is included within the non-NIH HHS budget, which is reduced by \$800 million in 2002 (see above). A proportional reduction in LIHEAP funding would mean that 148,000 less families would receive this assistance at a time of increased energy costs.

## Environment

For 2002, President Bush's budget provides \$26.4 billion in appropriations for natural resources and environmental programs. This level of funding is \$3.3 billion (11.2 percent) below the level needed, according to CBO, to maintain purchasing power at the 2001 level. The President's budget continues to cut the purchasing power of these programs in the following four years. By 2006, the level of appropriations in the President's budget represents a \$5.6 billion (17.1 percent) cut in purchasing power.

Agencies slated for cuts for 2002 include the Department of Interior, the Environmental Protection Agency, and the Army Corps of Engineers. Although it is impossible to tell from the President's budget, there are hints that the Forest Service and the National Oceanic and Atmospheric Administration will also face cuts for 2002.

- ! ***New Conservation Category Flat-lined***— The President's budget backtracks on last year's landmark agreement to set aside and protect funds for land and water conservation programs. In end-of-session negotiations, President Clinton and Congress agreed to create a new category of appropriated funding for land and water conservation programs. The funding in this new category is "fenced off" from other appropriated funds, and if appropriators do not utilize all of the funds in the category in any one year, any unused funding is available for appropriation the next fiscal year.

The category was set at \$1.6 billion for 2001 and is scheduled to grow by \$160 million per year through 2006, when it will reach \$2.4 billion. Under that schedule, total appropriations from the category for 2002 through 2006 will total \$10.4 billion. However, the President's budget abandons this funding schedule and flat-lines conservation funding at \$1.5 billion for 2002 to 2004 and \$1.6 billion for 2005 and 2006. This results in \$2.7 billion less in dedicated conservation appropriations over the five-year period.

- ! ***Drilling in the Arctic National Wildlife Refuge*** — The President's budget assumes the opening of the Arctic National Wildlife Refuge (ANWR) for oil drilling, a move that would threaten an irreplaceable natural treasure while adding a limited amount to the nation's oil supply. Although assumed in the budget, the Administration cannot implement this proposal without new legislation from Congress.

- ! ***Department of Interior*** — For 2002, the President's budget provides \$9.8 billion in appropriations for the Interior Department, \$400 million (3.9 percent) less than its 2001 funding. This funding level is \$737 million (7.0 percent) below the level needed, according to CBO, to maintain purchasing power at the 2001 level. As described below, the President increases funding for two initiatives within the Interior Department, for a total cost in 2002 of nearly \$460 million. The additional cost of these initiatives means that the President's cut to the purchasing power of the rest of the department totals \$1.2 billion (11.4 percent) for 2002.

- ! ***Land and Water Conservation Fund (LWCF) Programs*** — As promised during the campaign, the President’s budget provides \$900 million for the land acquisition programs traditionally funded by the LWCF. This total includes \$450 million for federal land acquisition and \$450 million for grants to states and localities. This funding level is \$357 million above the 2001 funding level for these programs.
- ! ***National Park Service Maintenance Backlog*** — During the campaign, President Bush promised to eliminate over five years the Park Service’s backlog of deferred maintenance needs, which the agency estimates at \$4.9 billion. In his budget, the President provides \$440 million for this purpose, \$100 million above the 2001 funding level. Environmentalists have generally praised this initiative but some have faulted it for being focused almost exclusively on roads and buildings. They believe the proposal should place greater emphasis on the protection of plants, animals, and historic artifacts in the national parks.
- ! ***Environmental Protection Agency (EPA)*** — The President’s budget provides \$7.3 billion for EPA, \$500 million (6.4 percent) less than the agency’s 2001 appropriation. This funding level is \$800 million (9.4 percent) below the level needed, according to CBO, to maintain purchasing power at the 2001 level. The budget claims to keep EPA’s operating programs at the 2001 level of \$3.7 billion and to make ends meet by cutting the agency’s “capital and other spending.”
- ! ***Army Corps of Engineers*** — The budget cuts Army Corps of Engineers appropriated funding to \$3.9 billion, \$800 million (16.9 percent) below the level needed, according to CBO, to maintain purchasing power at the 2001 level.



## Agriculture

For 2002, President Bush's budget provides \$17.9 billion for appropriated programs for agriculture. This is \$1.7 billion (8.6 percent) below the level needed, according to CBO, to maintain purchasing power for agriculture programs at their 2001 levels.

- ***Assistance for Farmers*** — Even though agriculture received \$27 billion in the past three years in emergency assistance, President Bush's budget provides no additional money for income assistance for farmers, and leaves the baseline for agriculture unchanged. The President proposes an unspecified tax incentive to allow farmers and ranchers to save for downturns in the agriculture economy. It is unlikely that farmers will have money to put in such accounts unless more federal support is provided, because emergency income assistance for crop years 1999 and 2000 represents about one-third of crop net farm income for those years. The Administration maintains that a portion of the reserve funds in the President's budget could be used to help farmers, but claims on the reserve funds are likely to exceed the money available. As discussed in *Appropriated Programs*, the "National Emergency Reserve Fund" holds less than two-thirds of the average amount of emergency aid agriculture has received over the past three years. Natural disasters outside of agriculture and other unforeseen events must also be addressed through this emergency reserve fund. The President's larger "contingency reserve fund" could in theory be tapped to support farmers, but the claims on the fund already exceed the money that is really available in it. Furthermore, any use of such reserves for farmers would necessarily occur at the expense of other priorities such as reducing debt or preserving the Social Security and Medicare trust funds. See *Overview* for further details.
- ***The \$940 Million Mirage*** — On page 192 of President Bush's budget, Table S-8 lists savings of \$940 million over ten years from changes to the crop insurance program. The reimbursement rate paid to private insurance companies, intended to help companies cover the cost of writing federal crop insurance policies, is reduced from 24.5 percent to 20 percent. The proposal is not mentioned in any other part of the President's budget, and the Administration claims the crop insurance cut is a "mistake." The Secretary of Agriculture asserts that the President has no plans to make the change and that the proposal's inclusion in the budget document was unintended. OMB has yet to address the issue officially, and the lack of detail in the budget document makes it impossible to confirm that the proposal is not included.
- ***Staffing County Offices*** — While the budget claims it will advance previous efforts to streamline and modernize field offices, and it suggests that funding for items such as a common computing environment will improve, the actual funding levels in the budget make it clear that staffing levels will fail to meet current needs. Many field offices are unable to handle the current workload. Unless the agriculture economy improves dramatically, these offices will continue to show long lines at their counters, frustrate farmers and staff alike, and delay the processing of needed farm assistance — which is sharply reduced from current levels under the President's budget.

# Energy

## Overall Funding Levels

President Bush's budget provides \$19 billion for the Department of Energy (DOE) for 2002, which is \$1.4 billion (6.8 percent) below the level needed, according to CBO, to maintain purchasing power for energy programs at their 2001 levels. This amount is \$700 million less than last year's funding level. For information on national security programs within DOE, see *National Defense*.

Civilian programs at DOE provide funding for energy supply, energy conservation, renewable energy research and development, advanced scientific research, environmental management, and other programs. Non-defense related activities represent approximately 31 percent of DOE spending. A funding level of \$19 billion for DOE is likely to result in a \$450 million cut from last year's level for civilian DOE programs, and a \$700 million (11 percent) reduction in purchasing power compared with 2001.

If President Bush abides by his campaign promises to support renewable energy and promote energy conservation, it is unlikely that renewable energy and energy conservation programs within DOE will be subject to cuts. Therefore, science and technology programs (financing such things as the Human Genome Project; research developing supercomputers and nanotechnology; and climate change studies) and the other remaining DOE programs would face a 14 percent cut.

- ***Weatherization Assistance Program*** — President Bush's budget increases DOE's Weatherization Assistance Program (WAP) by \$120 million, or 78 percent over last year's level of \$153 million. WAP funds are distributed to states by formula grants, and reach families through local authorities. Unlike the Low-Income Home Energy Assistance Program (LIHEAP), which assists families with heating and cooling bills, WAP seeks to make homes more energy-efficient. Last year, WAP funding represented less than one percent of DOE's total budget; the proposed increase would bring the level to 1.4 percent.
- ***Alaska National Wildlife Refuge (ANWR)*** — As part of his overall energy policy, President Bush will allow oil and gas drilling in ANWR and on other federal lands. The budget sets aside the possible \$1.2 billion received in bonus bids in 2004 for research and development of alternative energy sources. See *Environment* for further details.

## International Affairs

President Bush's budget includes \$23.9 billion for all U.S. international activities (Function 150), including: operating U.S. embassies and consulates throughout the world; military assistance to allies; aid to underdeveloped nations; economic assistance to fledgling democracies; promotion of U.S. exports abroad; U.S. payments to international organizations; and U.S. contributions to international peacekeeping efforts. Funding for all of these activities represents about one percent of the federal budget.

### International Affairs Funding (discretionary budget authority in billions)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Bush Budget</b>	22.6	23.9	23.8	24.5	25.2	25.9
<b>Nominal Increase</b>	NA	+ 1.3	-0.1	+ 0.7	+ 0.7	+ 0.7
<b>Nominal Yearly % Inc.</b>	NA	5.6%	-0.004%	2.9%	2.9%	2.8%

- ! ***Apparent Increase for 2002 Not As Large As Advertised*** — The 2002 level is about \$700 million (3.1 percent) above the level, according to CBO, to maintain purchasing power for international programs at the 2001 level. However, the increase is certainly overstated because the 2001 appropriations did not contain any funding at all for the Andean counternarcotics initiative. According to the State Department, funding for the Andean Initiative was \$1.0 billion for 2000, and the budget states that it will be funded at a level yet to be specified for 2002 (press reports indicate that it could be up to \$600 million). An “apples to apples” comparison of 2001 appropriations with the 2002 budget should exclude the funding for this initiative, and as a result, the budget's apparent increase for 2002 will be reduced significantly.
- ! ***International Affairs Funding in Future Years*** — After 2002, the budget cuts funding for international affairs programs for 2003 below the 2002 level. After the 2003 cut, the budget only increases international affairs funding by a nominal rate of 2.9 percent or less. The average annual rate of nominal growth is thus only 1.6 percent over the 2002 - 2006 period, which is not enough to keep pace with inflation. Measured in constant 2001 dollars, funding for international affairs peaks in the first year of the budget (2002) and then is approximately \$1 billion less each year over the 2003 - 2006 period.
- ! ***Embassy Security*** — The budget provides \$1.3 billion for embassy security, which is \$200 million above the level, according to CBO, to maintain purchasing power at the 2001 level.
- ! ***Unspecified Increases*** — In addition to embassy security, the budget states that it funds increases for a host of international programs and State Department initiatives, but does not specify the funding levels for these activities. Programs slated for unspecified

increases include: counternarcotics activities in the Andean region; upgrading the State Department's information technology systems; HIV/AIDS prevention; improving primary education in Africa and other areas; military assistance for Israel; and international broadcasting. As previously discussed, the Andean counternarcotics initiative alone could well use up the remaining \$500 million increase (\$700 million less the \$200 million increase for embassy security). To the extent that the unspecified increases exceed the remaining \$500 million increase (and savings from program cuts), the budget must cut other international affairs programs relative to the amount required to maintain purchasing power at their 2001 levels.

- ! ***Sustaining the 2002 Initiatives and Program Increases in 2003 and Beyond*** — The budget states that it plans to reduce costs by streamlining operations, including reducing the number of “middle management” personnel at the State Department, but it is difficult to believe that the resources provided by such streamlining will be sufficient in 2003 and beyond to sustain the initiatives and funding increases included in the 2002 budget (see *International Affairs Funding in Future Years* above). If this is indeed the case, then absent an influx of additional funding above the budget levels, either the 2002 initiatives and funding increases will force significant cuts to the remaining international affairs programs and activities, or the 2002 initiatives and funding increases will be abandoned (or some combination thereof).
- ! ***Export-Import (Ex-Im) Bank of the United States*** — The Ex-Im Bank, the official credit agency of the U.S., provides financing assistance to U.S. exporters and, when necessary, matches foreign subsidies so U.S. companies can compete for business on equal footing (approximately 77 countries provide export credit or subsidies). For 2000, the Ex-Im Bank appropriation of just over \$750 million supported \$15.5 billion in U.S. exports. The budget cuts the Ex-Im Bank's credit subsidy funding 25 percent, a cut of approximately \$220 million from the level CBO estimates is needed to maintain the Ex-Im Bank's activities at the 2001 level. The budget could thus reduce 2002 U.S. exports by up to \$4 billion.<sup>15</sup>
- ! ***Overseas Private Investment Corporation (OPIC)*** — OPIC is an independent agency that offers political risk insurance and financing (loans, loan guarantees, direct equity investment funds) for U.S. businesses operating abroad. The budget contains no funding for OPIC for 2002 but expects OPIC to maintain its current level of credit programs by tapping into carryover balances of past appropriations. The 2001 appropriated level for OPIC was \$24 million. OPIC does not support projects that cause any job losses in the U.S., and small businesses supply two-thirds of the supplies used in OPIC projects. The budget will lessen OPIC's margin of reserves should default rates increase and will preclude new initiatives OPIC was contemplating for small businesses, but otherwise it will have a limited impact on OPIC's 2002 activities.

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<sup>15</sup>The precise loss of U.S. exports for 2002 is difficult to estimate because the level of exports supported by a given appropriation varies from year to year.

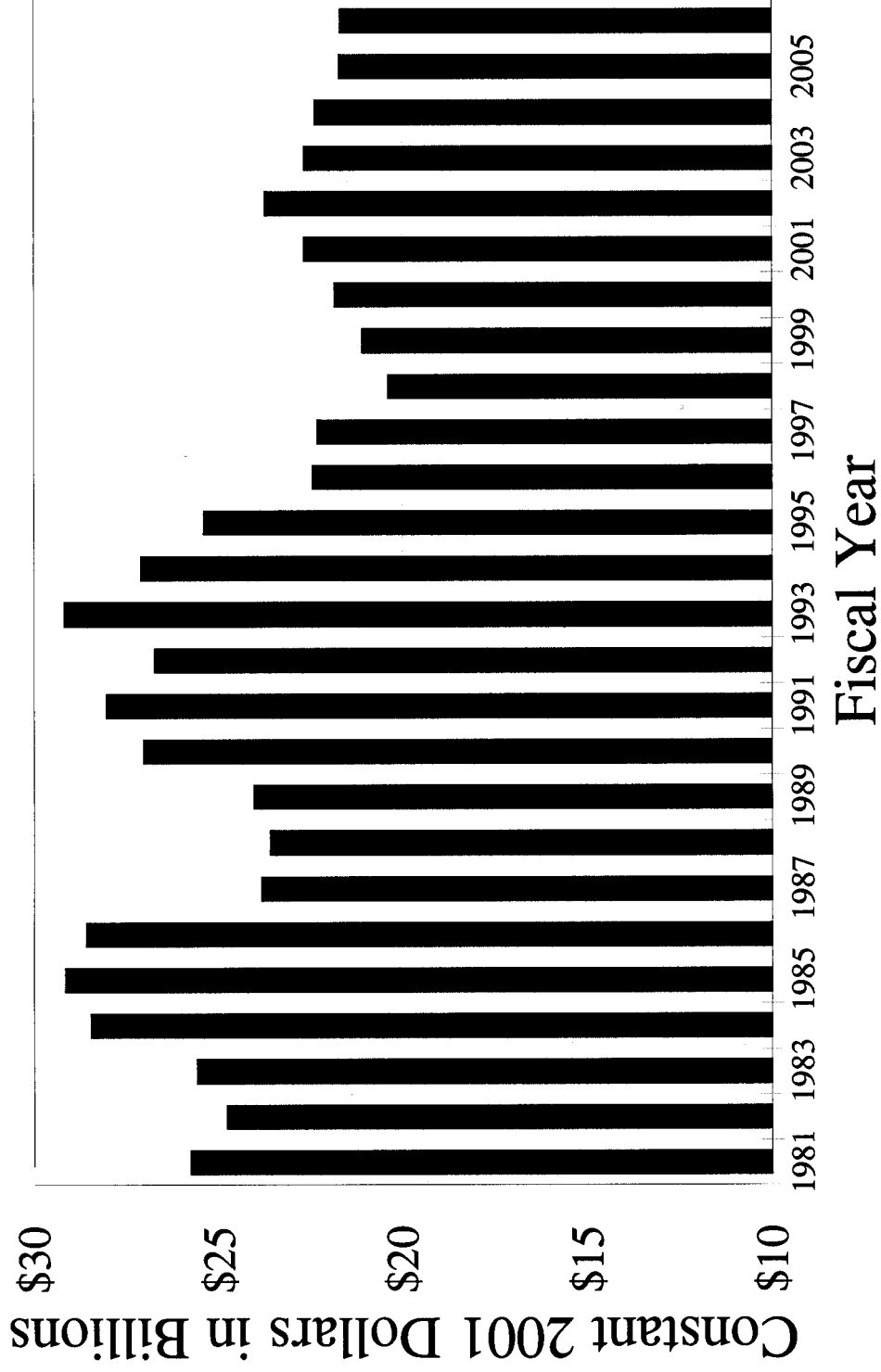
- ! ***U.S. Foreign Aid in Comparison to Other Developed Countries*** — According to the most recent foreign aid figures from the Organization for Economic Cooperation and Development (OECD),<sup>16</sup> the U.S. ranks 22nd in the world in foreign aid as a percent of gross national product (GNP). The U.S. level is one-tenth of one percent of GNP, which is a quarter of the average percentage among developed countries. In total amount of foreign aid, the U.S. has ranked second behind Japan for several years and by increasing amounts (\$6 billion in 1999). While the level of funding in the budget for foreign aid is still unknown, it is highly unlikely that it is sufficient to reverse the ranking of the U.S. in terms of foreign aid as a percent of GNP.
- ! ***International Affairs Spending from a Historical Perspective*** — On page 126 of the President's budget, a chart is included to illustrate that international affairs funding has increased by an annual average nominal rate of 6.2 percent from 1998 to 2002. The chart below highlights the limits of that narrow perspective. The chart shows in constant 2001 dollars international affairs outlays (what was actually spent) from 1981 through 2001, while the 2002 through 2006 levels equal those of the Bush budget.<sup>17</sup> As the chart clearly indicates, 1998 represents the lowest level of international affairs spending during this entire 26-year period. The nominal increases of the last few years are in effect a "catch up" of the steep cuts of 1996 - 1998. Even so, international affairs programs in the Bush budget decrease in real terms after 2002. Average annual spending over the 1981 - 1995 period was \$26.5 billion in constant 2001 dollars, whereas the highest level in the Bush budget is \$23.7 billion in constant 2001 dollars, 10.3 percent below the 1981 - 1995 average. The bottom line is that spending on international affairs is still well below recent historical levels, and the Bush budget keeps it below those levels.

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<sup>16</sup>Data is for 1999 assistance. The OECD measurement is based on its definition of "official development assistance," consisting of grants or concessional loans to developing countries to promote economic development. Military assistance is not considered official development assistance. U.S. economic assistance to Israel is excluded because Israel is not considered a developing county by the OECD.

<sup>17</sup>Outlays are used to avoid anomalies with budget authority such as contributions to the International Monetary Fund. CBO's chain-weight Gross Domestic Product deflator was used for the constant dollar calculation.

## Historical Perspective on International Affairs Outlays



## Federal Employees

- ! **Federal Pay Raises** — President Bush's 2002 budget is silent on the amount of any pay raise for civilian employees. According to news reports, the Office of Management and Budget (OMB) is directing agencies to plan their 2002 budgets with a 3.6 percent raise for civilian employees, but the Administration's pay recommendation will not be released until April. The budget does specify a 4.6 percent pay raise for military employees. If the civilian pay increase is really 3.6 percent, the President's budget deviates from the traditional military-civilian parity for pay increases.
- ! **Agency Contributions** — The President's budget extends a provision contained in the Balanced Budget Act of 1997 that increased agency contributions for employees covered by the civil service retirement system. That provision is scheduled to expire in 2002. By extending the provision, the budget increases mandatory offsetting receipts by about \$2.0 billion over 10 years. The higher agency contributions will have to be paid for with funds appropriated to agencies for other budgetary needs.
- ! **Federal Workforce** — The budget includes cuts of 40,000 mid-level managerial positions in the government and also includes plans to contract out more federal work.
- ! **Federal Employees Health Benefits Program (FEHBP)** — The budget assumes reforms to the federal employees health benefits program to reduce federal employees' health care costs and improve their quality of care. Although the Office of Personnel Management (OPM) will implement these reforms, the administration has yet to appoint a director of OPM.

## Other Major Topics

- **Veterans** — For 2002, President Bush's budget provides \$51.5 billion for veterans' programs, \$23.4 billion of which is for appropriated programs. This amount is almost \$1 billion over last year's level and roughly equal to the amount needed to maintain purchasing power. However, over five years the budget cuts appropriated programs by \$3.8 billion (3.0 percent).

The budget extends certain expiring provisions such as IRS income verification for means-tested programs, rounding down the cost-of-living adjustment for disability benefits, limiting pensions for Medicaid recipients in nursing homes, and continuing current housing loan fees. The budget also eliminates the vendee home loan program, which allows the Department of Veterans Affairs (VA) to sell foreclosed properties to non-veterans using direct loans. Eliminating this program may make it more difficult for the VA to sell foreclosed properties, especially properties in disrepair.

- **Department of Justice** — The Department of Justice administers federal law enforcement programs, federal litigation activities, federal correctional operations, and state and local justice assistance. Agencies within the Department include: the Federal Bureau of Investigation (FBI); the Drug Enforcement Administration (DEA); the Immigration and Naturalization Service (INS); United States Attorneys; and the federal prison system.

President Bush's budget includes \$19.9 billion in appropriations for the Department of Justice for 2002. This is a \$1.9 billion decrease (8.8 percent) below the level needed, according to CBO, to maintain purchasing power at the 2001 level.

The budget specifies only a few of the cuts assumed for 2002. The budget decreases funding for the Equal Employment Opportunity Commission by \$9 million below the level needed to maintain current services. In addition, the budget redirects \$1.5 billion in state and local justice assistance to federal law enforcement agencies and other selected state and local grants. Although the budget includes initiatives within the INS to process immigration applications more quickly, to hire border patrol agents, and to provide additional detention bed spaces, the budget does not increase overall spending for the agency, leaving open how the necessary resources will be found from other programs.

The budget provides only slight increases for the following agencies: federal prisons (\$200 million increase); the FBI (\$130 million increase); and the DEA (\$100 million increase). The budget maintains the U.S. Attorneys office at the 2001 level.

- ! **Transportation Funding** — The President's budget fully funds the guarantee levels for highway and mass transit programs as specified by the Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21). The budget provides \$32.3 billion for the federal-aid highway program and \$6.7 billion for mass transit programs. The President's budget also fully funds the Federal Aviation Administration (FAA) as specified in the Aviation Investment and Reform Act for the 21<sup>st</sup> Century (AIR-21). The President provides \$13.3 billion for FAA, an increase of \$725 million over the 2001 level.



- ***Federal Emergency Management Agency (FEMA)*** — The President’s budget decreases FEMA appropriations to \$2.0 billion, \$500 million below the level needed to maintain purchasing power at the 2001 level according to CBO.
- ***Community Development Block Grant (CDBG)*** — The President’s budget decreases funding for the CDBG program by \$112 million below the level needed to maintain purchasing power at the 2001 level according to CBO.
- ! ***National Science Foundation*** — The budget provides \$4.5 billion in appropriations for the National Science Foundation (NSF) for 2002, slightly below the amount needed, according to CBO, to maintain purchasing power for NSF programs at their 2001 level. The budget proposes \$200 million for a Math and Science Partnership to strengthen education in these areas by fostering collaborations between higher education and K-12 institutions. However, \$110 million of this money is offset by a cut in existing NSF education programs, reducing by more than half the amount of new money included for the initiative. The budget also cuts \$45 million from existing projects and reduces facility project spending by \$13 million.
- ! ***National Aeronautics and Space Administration*** — The budget contains \$14.5 billion in appropriations for the National Aeronautics and Space Administration (NASA) for 2002, which is \$160 million below the level needed, according to CBO, to maintain purchasing power at the 2001 level. The budget cuts all funding for the Pluto-Kuiper Express and Solar Probe space missions, and it discontinues some earth science programs and some unspecified aeronautics programs.
- ! ***National Service*** — The budget states that “[v]olunteerism and community service have been a strong and important tradition in America ever since its founding.” Yet, the budget’s \$733 million in appropriations for the Corporation for National and Community Service for 2002 is \$55 million (7.0 percent) below the level needed, according to CBO, to maintain purchasing power for national service programs at their 2001 level.
- ***Budget Process Reform*** — President Bush’s budget proposes caps for appropriated programs, and pay-as-you-go requirements for entitlement spending and tax legislation over the next five years. According to the Administration’s estimates, the caps on appropriated programs are equal to the levels needed to keep pace with inflation and are extended through 2006. (See *Appendix* for more information on discretionary caps.) The pay-as-you-go provision would continue current law requiring that increases in mandatory spending or decreases in taxes be offset by either decreases in mandatory spending or increases in taxes. However, the budget’s pay-as-you-go requirement *does not* apply to the President’s tax plan, his Medicare Helping Hand initiative, or his Medicare reforms. The budget also contains a \$5.6 billion National Emergency Reserve fund. In addition, the budget includes proposals for biennial budgeting, a joint budget resolution, an automatic continuing resolution, and a Presidential line-item veto linked to retiring debt that would prove constitutional.

## **The Budget By Function**

The following three tables show the President's budget broken down by budget functions, which correspond with the major areas of federal government activity. The first table shows the budget for appropriated (or "discretionary") spending, which is spending controlled by the annual appropriations process. The second table shows the budget for mandatory spending, which is spending provided for through authorizing legislation. Mandatory spending includes entitlement programs such as Medicare, Medicaid, and Social Security, as well as interest payments on the federal debt. The last table shows total spending (appropriated and mandatory) for each budget function. Since the President's budget did not provide the function totals for mandatory spending, these figures were calculated by subtracting discretionary spending from the total budget figures. Figures may not add due to rounding.

**BUSH FY 2002 BUDGET AS ESTIMATED BY OMB**  
**APPROPRIATED PROGRAMS**  
(In billions of dollars)

	2001	2002	2003	2004	2005	2006	5 Yr. Total
<b>Total Discretionary</b>							
Budget Authority	635.0	660.7	678.6	697.4	716.8	736.9	3,490.4
Outlays	649.1	691.7	708.4	726.9	750.8	768.6	3,646.4
<b>Non-defense discretionary</b>							
Budget Authority	323.7	335.8	345.2	354.6	364.4	374.6	1,774.6
Outlays	349.5	372.6	386.6	393.8	403.4	414.2	1,970.6
050 National Defense							
Budget authority	311.3	324.9	333.4	342.8	352.4	362.3	1,715.8
Outlays	299.6	319.1	321.8	333.1	347.4	354.4	1,675.8
150 International Affairs							
Budget authority	22.7	23.9	23.8	24.5	25.2	25.9	123.3
Outlays	24.1	24.5	24.4	24.6	24.6	25.3	123.4
250 General Science, Space							
Budget authority	20.8	22.0	22.5	23.1	23.6	24.3	115.5
Outlays	19.6	21.1	21.9	22.6	23.2	23.8	112.6
270 Energy							
Budget authority	3.1	2.8	2.7	3.0	3.1	3.2	14.8
Outlays	3.1	3.0	3.0	2.9	3.1	3.1	15.1
300 Natural Resources and Environment							
Budget authority	28.8	26.4	26.5	27.2	27.4	27.4	134.9
Outlays	27.7	27.8	27.4	27.5	28.0	28.4	139.1
350 Agriculture							
Budget authority	5.1	4.8	5.2	5.2	5.3	5.5	26.0
Outlays	5.5	5.5	5.2	5.2	5.3	5.5	26.7
370 Commerce and Housing Credit							
Budget authority	0.7	-0.3	-0.2	-0.5	-0.6	-0.6	-2.2
Outlays	1.8	0.3	0.0	-0.4	-0.6	-0.6	-1.3
400 Transportation							
Budget authority	19.0	15.9	16.3	16.8	17.2	17.7	83.9
Outlays	48.9	52.9	54.2	56.6	59.1	61.1	283.9
450 Community and Regional Development							
Budget authority	11.0	10.1	10.4	10.6	10.9	11.2	53.2
Outlays	11.4	11.7	11.8	11.4	11.3	11.1	57.3
500 Education and Training							
Budget authority	61.2	65.3	65.6	67.6	69.5	71.5	339.5
Outlays	55.5	61.8	65.4	66.0	67.6	69.6	330.4
550 Health							
Budget authority	38.9	41.0	45.5	47.0	48.5	50.0	232.0
Outlays	34.0	38.6	42.2	45.4	47.2	48.7	222.1
570 Medicare							
Budget authority	3.4	3.4	3.4	3.5	3.6	3.8	17.7
Outlays	3.3	3.4	3.4	3.5	3.6	3.7	17.6
600 Income Security							
Budget authority	39.5	42.8	44.5	46.2	48.0	49.4	230.9
Outlays	45.4	46.9	47.7	48.3	49.1	50.2	242.2
650 Social Security							
Budget authority	3.4	3.5	3.5	3.6	3.7	3.8	18.1
Outlays	3.6	3.5	3.5	3.6	3.7	3.8	18.1
700 Veterans							
Budget authority	22.5	23.5	23.4	24.1	24.8	25.5	121.3
Outlays	22.3	23.4	23.4	24.1	24.8	25.5	121.2
750 Administration of Justice							
Budget authority	29.9	29.7	31.6	31.4	32.3	33.3	158.3
Outlays	28.9	30.9	34.0	32.3	32.2	33.0	162.4
800 General Government							
Budget authority	14.0	14.8	14.8	15.2	15.6	16.0	76.4
Outlays	14.5	14.7	14.8	15.0	15.4	15.8	75.7
920 Allowances							
Budget authority	0.0	6.0	5.7	6.3	6.4	6.6	31.0
Outlays	0.0	2.7	4.3	5.0	6.0	6.3	24.3

**BUSH FY 2002 BUDGET AS ESTIMATED BY OMB**  
**MANDATORY AND OFFSETTING RECEIPTS TOTALS**  
(In billions of dollars)

	2001	2002	2003	2004	2005	2006	5 Yr. Total
Budget Authority	1,256.5	1,320.9	1,360.1	1,402.2	1,470.9	1,516.6	7,070.7
Outlays	1,207.2	1,267.6	1,303.2	1,344.1	1,412.8	1,452.0	6,779.7
<b>050 National Defense</b>							
Budget authority	-0.7	-0.1	-0.2	-0.6	-0.6	-0.7	-2.2
Outlays	-0.5	-0.2	-0.2	-0.5	-0.6	-0.6	-2.1
<b>150 International Affairs</b>							
Budget authority	-4.1	-0.9	-0.9	-1.3	-1.3	-1.0	-5.4
Outlays	-6.6	-3.4	-3.4	-3.5	-3.4	-3.3	-17.0
<b>250 General Science, Space</b>							
Budget authority	0.1	0.2	0.1	0.0	0.0	0.0	0.3
Outlays	0.1	0.1	0.1	0.1	0.0	0.0	0.3
<b>270 Energy</b>							
Budget authority	-3.9	-3.2	-3.0	-3.6	-3.6	-3.5	-16.9
Outlays	-3.7	-3.3	-3.1	-3.6	-3.7	-3.6	-17.3
<b>300 Natural Resources and Environment</b>							
Budget authority	0.0	0.2	0.2	0.3	0.3	0.3	1.3
Outlays	-0.1	0.0	0.1	0.3	0.2	0.2	0.8
<b>350 Agriculture</b>							
Budget authority	24.4	11.0	8.9	8.9	9.1	9.4	47.3
Outlays	20.6	13.1	9.7	8.7	8.7	9.0	49.2
<b>370 Commerce and Housing Credit</b>							
Budget authority	-9.5	8.8	7.9	6.5	6.7	7.0	36.9
Outlays	-2.5	6.6	4.6	3.9	4.0	2.7	21.8
<b>400 Transportation</b>							
Budget authority	42.6	45.3	47.0	48.2	49.5	50.8	240.8
Outlays	2.2	1.8	2.0	1.9	1.9	1.9	9.5
<b>450 Community and Regional Development</b>							
Budget authority	-0.6	-0.1	-0.3	-0.3	-0.4	-0.3	-1.4
Outlays	-0.7	-0.4	-0.7	-0.8	-1.0	-1.3	-4.2
<b>500 Education and Training</b>							
Budget authority	9.1	14.7	14.9	15.0	16.0	17.1	77.7
Outlays	9.2	14.4	14.8	15.1	15.7	16.5	76.5
<b>550 Health</b>							
Budget authority	142.5	163.9	184.3	199.4	205.9	218.8	972.3
Outlays	141.5	162.7	182.6	198.2	203.9	216.7	964.1
<b>570 Medicare</b>							
Budget authority	215.6	226.5	238.8	252.0	279.2	292.4	1,288.9
Outlays	216.0	226.4	238.5	252.2	279.0	292.2	1,288.3
<b>600 Income Security</b>							
Budget authority	222.7	231.7	240.4	250.6	261.4	268.8	1,252.9
Outlays	217.5	228.8	238.0	247.4	259.5	266.8	1,240.5
<b>650 Social Security</b>							
Budget authority	432.0	452.9	475.5	500.1	526.6	555.5	2,510.6
Outlays	430.0	451.2	473.6	498.0	524.3	553.0	2,500.1
<b>700 Veterans</b>							
Budget authority	25.1	28.1	29.8	31.2	32.6	34.0	155.7
Outlays	23.0	27.7	29.4	30.9	35.0	33.7	156.7
<b>750 Administration of Justice</b>							
Budget authority	0.1	1.2	-0.1	1.9	2.0	2.0	7.0
Outlays	0.2	0.7	0.4	2.0	1.8	1.9	6.8
<b>800 General Government</b>							
Budget authority	2.3	1.8	1.8	3.1	1.8	1.9	10.4
Outlays	2.5	1.8	1.8	3.3	1.9	1.8	10.6
<b>900 Net Interest</b>							
Budget authority	206.5	188.3	175.3	161.2	144.2	126.6	795.6
Outlays	206.5	188.3	175.3	161.2	144.2	126.6	795.6
<b>920 Allowances</b>							
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>950 Undistributed Offsetting Receipts</b>							
Budget authority	-48.0	-49.0	-60.2	-70.5	-58.7	-62.2	-300.6
Outlays	-48.0	-49.0	-60.2	-70.5	-58.7	-62.2	-300.6

## BUSH FY 2002 BUDGET AS ESTIMATED BY OMB

TOTAL BUDGET  
(In billions of dollars)

	2001	2002	2003	2004	2005	2006	5 Yr. Total
Budget Authority	1,891.5	1,981.6	2,038.7	2,099.6	2,187.7	2,253.5	10,561.1
Outlays	1,856.3	1,959.3	2,011.6	2,071.0	2,163.6	2,220.6	10,426.1
050 National Defense							
Budget authority	310.6	324.8	333.2	342.2	351.8	361.6	1,713.6
Outlays	299.1	318.9	321.6	332.6	346.8	353.8	1,673.7
150 International Affairs							
Budget authority	18.6	23.0	22.9	23.2	23.9	24.9	117.9
Outlays	17.5	21.1	21.0	21.1	21.2	22.0	106.4
250 General Science, Space							
Budget authority	20.9	22.2	22.6	23.1	23.6	24.3	115.8
Outlays	19.7	21.2	22.0	22.7	23.2	23.8	112.9
270 Energy							
Budget authority	-0.8	-0.4	-0.3	-0.6	-0.5	-0.3	-2.1
Outlays	-0.6	-0.3	-0.1	-0.7	-0.6	-0.5	-2.2
300 Natural Resources and Environment							
Budget authority	28.8	26.6	26.7	27.5	27.7	27.7	136.2
Outlays	27.6	27.8	27.5	27.8	28.2	28.6	139.9
350 Agriculture							
Budget authority	29.5	15.8	14.1	14.1	14.4	14.9	73.3
Outlays	26.1	18.6	14.9	13.9	14.0	14.5	75.9
370 Commerce and Housing Credit							
Budget authority	-8.8	8.5	7.7	6.0	6.1	6.4	34.7
Outlays	-0.7	6.9	4.6	3.5	3.4	2.1	20.5
400 Transportation							
Budget authority	61.6	61.2	63.3	65.0	66.7	68.5	324.7
Outlays	51.1	54.7	56.2	58.5	61.0	63.0	293.4
450 Community and Regional Development							
Budget authority	10.4	10.0	10.1	10.3	10.5	10.9	51.8
Outlays	10.7	11.3	11.1	10.6	10.3	9.8	53.1
500 Education and Training							
Budget authority	70.3	80.0	80.5	82.6	85.5	88.6	417.2
Outlays	64.7	76.2	80.2	81.1	83.3	86.1	406.9
550 Health							
Budget authority	181.4	204.9	229.8	246.4	254.4	268.8	1,204.3
Outlays	175.5	201.3	224.8	243.6	251.1	265.4	1,186.2
570 Medicare							
Budget authority	219.0	229.9	242.2	255.5	282.8	296.2	1,306.6
Outlays	219.3	229.8	241.9	255.7	282.6	295.9	1,305.9
600 Income Security							
Budget authority	262.2	274.5	284.9	296.8	309.4	318.2	1,483.8
Outlays	262.9	275.7	285.7	295.7	308.6	317.0	1,482.7
650 Social Security							
Budget authority	435.4	456.4	479.0	503.7	530.3	559.3	2,528.7
Outlays	433.6	454.7	477.1	501.6	528.0	556.8	2,518.2
700 Veterans							
Budget authority	47.6	51.6	53.2	55.3	57.4	59.5	277.0
Outlays	45.3	51.1	52.8	55.0	59.8	59.2	277.9
750 Administration of Justice							
Budget authority	30.0	30.9	31.5	33.3	34.3	35.3	165.3
Outlays	29.1	31.6	34.4	34.3	34.0	34.9	169.2
800 General Government							
Budget authority	16.3	16.6	16.6	18.3	17.4	17.9	86.8
Outlays	17.0	16.5	16.6	18.3	17.3	17.6	86.3
900 Net Interest							
Budget authority	206.5	188.3	175.3	161.2	144.2	126.6	795.6
Outlays	206.5	188.3	175.3	161.2	144.2	126.6	795.6
920 Allowances							
Budget authority	0.0	6.0	5.7	6.3	6.4	6.6	31.0
Outlays	0.0	2.7	4.3	5.0	6.0	6.3	24.3
950 Undistributed Offsetting Receipts							
Budget authority	-48.0	-49.0	-60.2	-70.5	-58.7	-62.2	-300.6
Outlays	-48.0	-49.0	-60.2	-70.5	-58.7	-62.2	-300.6

## Appendix

The Bipartisan Summit Agreement of 1990 placed statutory dollar limits or “caps” on discretionary budget authority and outlays for 1991-1995. It created a “sequestration” mechanism to make across-the-board cuts automatically if, at the end of each session of Congress, OMB determined that Congress had breached the caps. President Clinton’s 1993 budget extended the caps on appropriations through 1998, and the 1997 Bipartisan Budget Agreement revised and extended these caps through 2002. The 2001 caps were further revised last year in an addendum to the Foreign Operations Appropriations bill. The President’s budget proposes revising the 2002 caps and extending them through 2006.

In the past, separate categories of appropriations, such as defense, have been given their own set of caps within the overall caps on appropriations. As the table on the next page indicates, separate categories currently exist for two transportation categories (Highways and Mass Transit), and another for Conservation programs. The budget continues the separate category for Conservation through 2006, albeit at levels lower than current law mandates (see *Environment* for further discussion). The budget, however, does not extend the transportation categories past 2003.

In the past, the caps were automatically adjusted upwards for appropriations that were jointly declared emergencies by the President and Congress. As discussed in *Appropriated Programs*, not only will the \$5.6 billion in the National Emergency Reserve likely be insufficient, but the budget is also silent on whether the caps will be adjusted upwards if emergencies for a given year exceed the balance available in the emergency reserve, or whether such emergency funding will force cuts to non-emergency appropriations.

**Caps on Appropriations**  
(dollars in billions)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Caps by Category:</b>					
Conservation Category					
BA	1.5	1.5	1.5	1.6	1.6
Outlay	1.3	1.4	1.5	1.6	1.6
Highway Category					
BA	n.a.	n.a.	n.a.	n.a.	n.a.
Outlay	28.5	30.4	n.a.	n.a.	n.a.
Mass Transit Category					
BA	1.3	1.4	n.a.	n.a.	n.a.
Outlay	5.3	5.5	n.a.	n.a.	n.a.
General Purpose Category					
BA	657.8	675.6	695.9	715.2	735.3
Outlay	656.6	671.1	725.4	749.3	767
<b>Total, Caps on Appropriated Programs</b>					
BA	660.7	678.6	697.4	716.8	736.9
Outlay	691.7	708.4	726.9	750.8	768.6

**Addendum:**

**Pre-Existing Caps for 2002:\***

BA	551.8
Outlay	576.0

**Increase in 2002 Caps:**

BA	108.9
Outlay	115.7

\*CBO Estimate.